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Fats: An Inaccurate Hypothesis

Focus on Palm Oil

Markets

Malaysia's Target: Resilience

Slowdown in Palm Oil Output

Partnership on Sustainable Commodities

Health Warnings on Food Products

Argentina's Rush to Crush Soybean

Bulgaria: Open to Palm Oil

Croatia: Small, but Attractive Market

Comment

France Works on Biodiversity Law

Poser for Belgium

Branding

Best Response to Attacks

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The Swiss Family Robinson

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Smashed quarters

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When facts disprove claims about palm oil

Since the end of January, the French Parliament has been debating a Draft Law on biodiversity, which includes a proposal to impose an additional tax on palm oil of up to EUR 90 per tonne by 2020.

The final vote has not yet been held at the time of writing, but Environment Minister Segolene Royal and her parliamentary allies are lobbying aggressively in favour of the proposed tax. It is planned to increase the tax on palm kernel oil and coconut oil as well.

This planned tax on the three oils – and products that contain them – is mistaken and misleading on every conceivable level. Members of Parliament, and Senators before them, have advanced essentially two arguments: one economic, one environmental. Both are utterly untrue.

First, the economic argument. Genevieve Gaillard, the rapporteur for the Biodiversity Bill in the National Assembly, claims that the EUR 90 tax will 'even up' the taxes on vegetable oils, because palm oil is currently 'under-taxed' in France. This is patently false.

The numbers used by Gaillard and her colleagues are, in fact, based on an excise table which calculates only absolute taxes applied. Any economist knows that this is not how taxes are compared in reality: they are compared by value – in other words, by the percentage of tax paid relative to the price of the commodity.

When the current taxes on oils are analysed correctly, by percentage, the argument for a palm oil tax falls apart. Palm oil is currently taxed at 21.67% in France. This is more than rapeseed oil (11.69%); sunflower oil (15.79%) and much, much more than olive oil (4.9%).

The figures are clear. Any claim that palm oil is currently 'under-taxed' is factually and materially wrong.

Second, the environmental argument. Senators from the Green Party claim that palm oil is destructive and causing forest loss. The facts prove otherwise. Malaysia now has over 60% of land area protected as forest. This is set out in the latest United Nations report on Global Forest Assessment.

The Malaysian Government has committed to protecting a minimum of 50% of land as forest in perpetuity. This is a bold commitment unmatched across the world, including in France, which now has 29% of its land under forest. Again, the figures are clear.

Malaysia is recognised worldwide as being among leaders in forest protection. French MPs therefore have no moral standing to lecture Malaysia on this subject.

Scare-mongering about palm oil has been peddled throughout the debate on the proposed French tax. Again, let's examine the facts. Palm oil covers just 0.3% of the world's agricultural land. It has the highest yield of any oilseed crop, which means that it uses less land per tonne of oil. This means more land can be protected or used for other beneficial purposes.

Likely impact of tax

The proposed tax on palm oil is drafted as a 'differential' tax – meaning that 'sustainable palm oil' could be exempt from the new tax. This would of course mean France would be unilaterally launching its own definition of 'sustainability' for palm oil. This is unacceptable for producers, to be dictated to by the French Government in this manner.

The proposed 'differential' tax would negatively impact over 300,000 small farmers in Malaysia whose livelihoods depend on palm oil. It would be a major blow to poor and remote rural communities.

Importantly, it is becoming clear that the proposed tax is, almost certainly, contrary to France's commitments to the World Trade Organisation (WTO). It is to be expected that any such illegal assault on a strategic sector would be met with consequences at the WTO.

The tax is also a clear breach of the EU's market rules. In 2013, the European Commission had announced that such a tax on palm oil (as proposed at the time) would harm the ongoing EU-Malaysia trade negotiations.

The EU also made it clear that it had spoken to the French Government about the negative 'wider impact' of a palm oil tax. Those in both Paris and Brussels should be aware of such consequences once more.

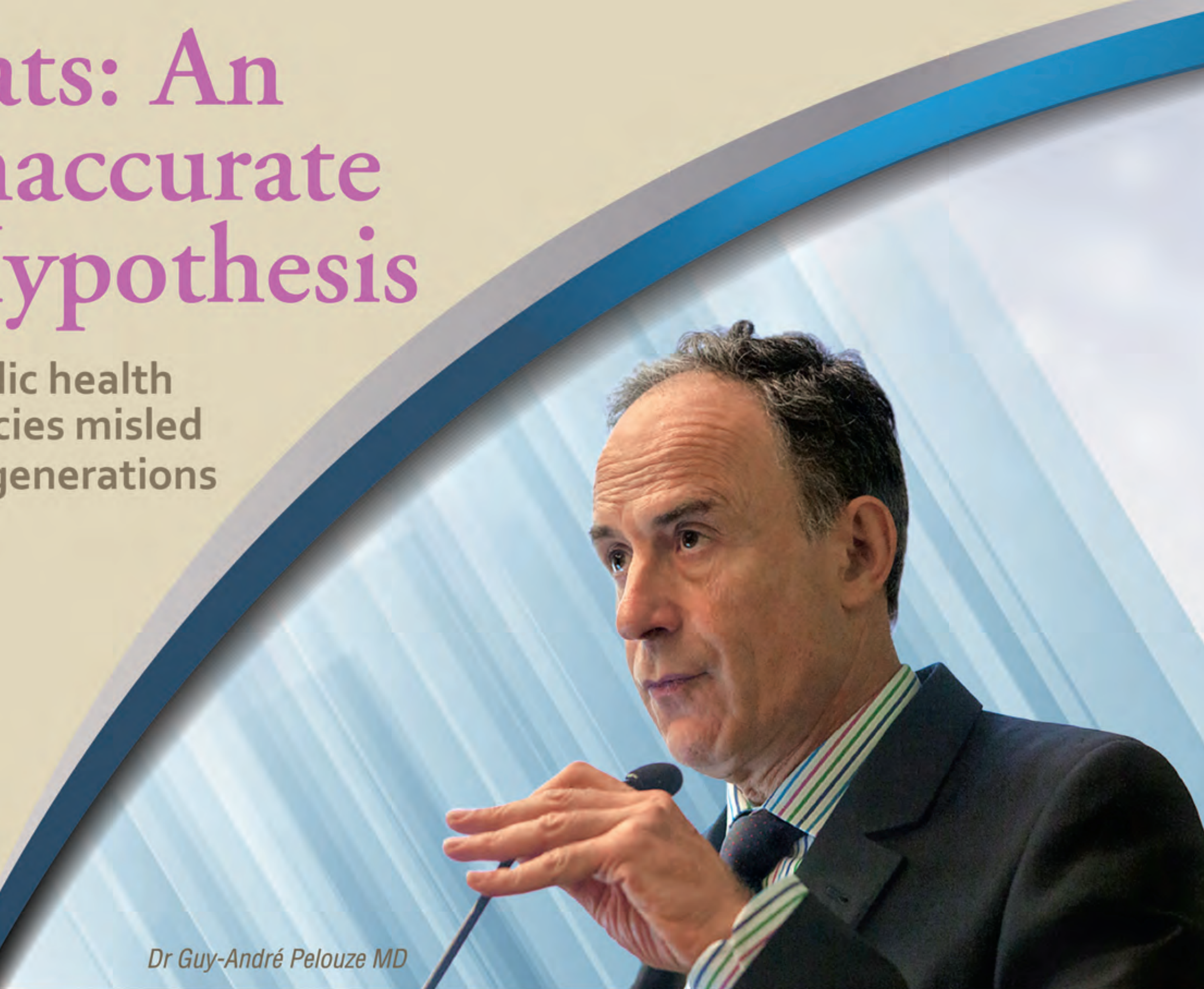
Only a few short years ago, French Foreign Minister Jean-Marc Ayrault promised the people of Malaysia that he would not tax palm oil. On a visit to Malaysia, he had promised our 300,000 small farmers that France would not harm them with a new tax. Yet, this spectre has been revived.

It is clear that the anti-palm oil activists cannot be appeased and are never satisfied. It is for palm oil producing countries to defend their interests against the harmful, discriminatory measures that continue to flow from France and elsewhere.

Dr Yusof Basiron
CEO, MPOC

Fats: An Inaccurate Hypothesis

Public health policies misled for generations



Dr Guy-André Pelouze MD

I hold that orthodoxy is the death of knowledge, since the growth of knowledge depends entirely on the existence of disagreement.

Karl Popper, *The Myth of the Framework, in Defence of Science and Rationality,* 1994, Routledge ed, p224

American scientist Ancel Keys is responsible, almost more than any other individual, for the public health misconception around fats that exists today. Through published work that was vaunted across the world, he had a far-reaching impact on how we think about the role of fats.

When Keys first published his theories, alleging that saturated fats were uniquely harmful, they were controversial.

This controversy remains strong today as the debate on the roles of fat and sugar in relation to cardiovascular disease (CVD) associated with atheroma goes on.

This article reflects upon two main subjects: understanding the complexity of chronic diseases as antithesis of acute infectious diseases; and the principle of falsifiability applied to atheroma theories and the practical consequences this entails.

After WWII, the work of Keys played a fundamental role in the debate around fats. How? Because it claimed to demonstrate a link between saturated fats consumption and atheroma:

> 'Many factors are probably involved in the atherosclerotic development and in the clinical appearance of coronary heart disease, but there is no longer any doubt that one central item is the concentration, over time, of cholesterol and related lipids and lipoproteins in the blood serum. No other etiological influence of comparable importance is as yet identified.' (Keys, *American Journal of Public Health,* Nov 1953, Vol 43, pp1,399-1,407)

Today in reality, scientists see tobacco, diabetes and hypertension to be much more powerful risk factors. We condemn researchers who, for over 40 years, have not been keen to verify the data and the conclusions it suggested.

Epidemiology in modern history

Epidemiologic observations have drawn the attention of scientists for a long time, to the link between dietary change and CVD. Examples of populations with low CVD prevalence or populations where CVD are the first cause of mortality have led epidemiologists to do research on food.

This is what we called 'Diet Heart Hypothesis'. But it is so incredibly complex that even today, we fail to come up with a definitive answer. Simple hypotheses (i.e. single-factor cause) and invalid experimental models have produced abundant literature, of which little is actually helpful.

We can however wonder about the dietary changes brought by the recent industrial transition. In the West, those changes can be qualified with three factors:

- Abundance of calories
- Abundance of carbohydrates
- Abundance of processed foods

Further to these, we should not forget about calorie expenditure. In industrialised countries, we have shifted to a sedentary lifestyle at work, in public transportation or for personal activities.

Hypothesis supported with charisma

Keys and his team then set out to study the dietary characteristics and lifestyles of different populations worldwide and compared the prevalence of coronary diseases. It was a rather large study at the time and needed significant funding.

This study addressed the issue of the heart attack epidemic that was hitting the US and other developed countries at the time. He quickly focused on diet-related risk factors, mostly because they were easier to measure, particularly through blood levels.

Among macronutrients, Keys had already explored fat and the indirect measure of blood lipids via blood cholesterol.

The study would be published in a book in 1980 (Keys *et al, Seven Countries. A Multivariate Analysis of Death and Coronary Heart Disease.* Cambridge, MA; Harvard University Press, 1980, p381). In the meantime, Keys gets more famous, is interviewed often and in January 1961, he is on the cover of *TIME* Magazine.

Keys described a link in the studied cohorts between the percentage of saturated fats in the diet and the death rate by coronary events. The correlation is dependent on the number of countries studied but it is significant in the cohorts he chose.

Since there is a correlation between total blood cholesterol and the same events and since Keys highlights that saturated fats (especially palmitic acid, as it is the most common) increase blood cholesterol, a conclusion appeared.

He stated that saturated fats, including palmitic acid, are linked to coronary atheroma. Others have then bridged the gap, saying they cause coronary diseases. Obviously, all of this was not true. Inaccuracies and biases made his observations invalid.

Even Keys ended up publishing more balanced conclusions than others:

> 'Our ten-year finding, and concordance with other studies, make it clear that the big three risk factors for coronary heart disease now established are age, blood pressure, and serum cholesterol. The findings about cigarette smoking as a risk factor indicate that here, too, relationships are not as simple as first supposed.' (*Seven Countries,* p341)

He later became an advocate of the Mediterranean diet and kept studying it for a while. In 1975, he published *How to Eat Well and Stay Well the Mediterranean Way* (ed. Doubleday).

Consequences still felt today

Dietary guidelines from experts and governments have been largely based on Keys' work. To lower our intake in cholesterol and saturated fats, populations have massively consumed food products in which the industry had replaced fats with carbohydrates, and had replaced saturated fats with vegetable oils rich in Omega-6.

This did not change the prevalence of atheroma-related diseases. New research even shows these changes may be linked to the obesity epidemic and type-2 diabetes.

Palm oil for one, which has a good balance between saturated and unsaturated fats, constitutes a healthy alternative – but it has been unjustly maligned for containing saturated fats.

There have been economic consequences, too. These are linked to the ability of the industry to have quickly found a new market opportunity with low-fat food products. It has, as always, shown to be very innovative in that regard. Its lobby was powerful and 'low-fat' developed globally, even though it is not possible as yet to show it has had any positive impact on cardiovascular health.

In the 40 years between Keys' work and the shadow cast upon it, many scientific articles have been published to try and explain the anomalies observed in real populations. None ever questioned what had become a dogma. The different paradoxes, including the famous French Paradox, have only started to shake the foundation of his hypothesis.

Who bears the responsibility?

Surely, Keys cannot be held responsible for how his data was used. But his vision clearly influenced medicine for generations and over-stated the importance of saturated fats and cholesterol in cardiovascular risk.

Exegetes of Keys at the University of Minnesota wrote about the *Seven Countries* Study:

> 'The main implications of the *Seven Countries Study* are that the mass burden and epidemic of atherosclerotic diseases has cultural origins, is preventable, can change rapidly, and is strongly influenced by the fatty composition of the habitual diet. The study implies the universal susceptibility of humans to CVD but that the frequency of susceptible phenotypes is greatly reduced in favourable environments. It suggests there may be other and important protective elements in the diet and lifestyles of Crete and Japan."

The only concession made to Keys' theories is the confirmation of a strong influence of the composition of lipids in the diet, but the words 'saturated fats' are no longer used.

In the *Journal of the American College of Cardiology*, Vera Bitter recently reminded physicians:

> "Atherosclerosis is a multifactorial disease and requires a multifactorial approach with smoking cessation, dietary modification and weight management, regular physical activity, attention to psychosocial risk factors, and pharmacological therapy of lipid and nonlipid risk factors. Comprehensive risk factor control is associated with improved prognosis, and our challenge is to develop care models that will allow us to achieve such control."

We need to keep in mind that tobacco, type-2 diabetes and hypertension are, in that order, more powerful atheroma risk factors than LDL particles. There is no interest in dietary cholesterol in preventing CVD. Saturated fats, like monounsaturated fats, and like carbohydrates increase the amount of LDL particles when in calorie excess and promotes atheroma if other risk factors are present, and if phenotype is susceptible.

This is the reason why we cannot predict among high-LDL patients those who will have a cardiovascular, cerebral or peripheral event, other than watching the three aforementioned powerful risk factors, or having proper atheroma plaques examinations.

In summary, Keys was wrong, and his mistake has been compounded over the decades. It is time now to end the crusade against saturated fats.

Dr Guy-André Pelouze
Cardio-thoracic Surgeon,
France

This article contains extracts from the scientific paper 'Ancel Keys: Science is not believing'.

MALAYSIA'S TARGET: RESILIENCE

In palm oil sector

POC2016
PALM & LAURIC OILS
PRICE OUTLOOK CONFERENCE & EXHIBITION

The three-day Palm & Lauric Oils Conference and Exhibition (POC), Price Outlook 2016/17, took place in Kuala Lumpur, Malaysia, from March 7-9. This marked the 27th anniversary of the annual event, co-organised by Bursa Malaysia Derivatives Bhd and the CME Group this year.

On March 8, the Hon. Datuk Amar Douglas Uggah Embas, Minister of Plantation Industries and Commodities, read the keynote address on behalf of Deputy Prime Minister, the Hon. Dato' Seri Dr Ahmad Zahid Hamidi, and declared open the event. An edited version of the keynote address follows.

"The oil palm industry has been synonymous with Malaysia's economic development, including opening up employment opportunities in the agriculture sector. Currently, it provides direct employment to more than 1 million people, including 600,000 smallholders.

The Government recognises the importance of the palm oil sector and has taken measures to enhance its performance – from upstream to downstream sub-sectors – in order to generate higher income for the country.

In 2015, Malaysia produced 19.96 million tonnes of crude palm oil from a planted area of 5.64 million ha. Exports of palm-based products stood at 26.2 million tonnes, bringing in RM63.2 billion. The palm oil sector contributed 8.1% of Malaysia's merchandise exports.

The domestic palm oil sector subscribes to voluntary industry-led certification under the Roundtable on Sustainable Palm Oil. Currently, 25.3% of the planted area is certified as meeting its standard.

In addition, the Malaysian Sustainable Palm Oil Certification Scheme was implemented with effect from 2015. It is based on compliance with domestic laws and regulations, including the development and management of oil palm cultivation that subscribes to the best environmental and agricultural practices.

Government backing

The Government will continue to facilitate the development of the industry by making available grants for specific projects from 2016 to 2020. These include an allocation of RM250 million to encourage investments in the production of oleochemicals, as well as food and health value-added products. Another RM4.5 million will be made available to smallholders and plantation companies to acquire in-field equipment/machinery.

Continuous research into the nutritional aspects of palm oil is equally important. This will provide further opportunities to expand use in food products and capitalise on the nutritional benefits of palm oil.

The health value of pharmaceutical and nutraceutical products derived from palm oil will be given emphasis through laboratory tests and clinical trials by credible medical universities and institutions. The Government, through the Malaysian Palm Oil Board, is collaborating with renowned scientists around the world. To facilitate this, RM30 million will be allocated from 2016 to 2020.

The Government will continue to implement measures that ensure the long-term resilience of the palm oil industry, both domestically and internationally. These include the B7 programme with effect from 2015, involving the annual consumption of 575,000 tonnes of palm oil.

This will diversify and increase the use of palm oil. It will lower the dependence on petroleum diesel, thereby also reducing greenhouse gas emissions. Plans to upgrade the B7 programme to a B10 programme are in the pipeline.

Other initiatives include the Oil Palm Replanting Incentive Scheme, implemented from Oct 1 to Dec 31, 2015, with an allocation of RM100 million. The scheme aims to replace 83,000 ha of unproductive oil palm trees nationwide.

The Government has embarked on new planting and replanting scheme for smallholders, utilising high-yielding planting materials that will in the long term ensure improvements in productivity and income. This will further enable better management of stock levels and lead to stronger CPO prices.

At the international level, Malaysia and Indonesia, being the two largest palm oil producers, have signed the Charter on the establishment of the Council of Palm Oil Producing Countries (CPOPC). It will enable member-countries to strengthen collaboration in the development of the industry.

Among issues to be addressed are trade impediments in major importing countries; negative campaigns against palm oil; promotion of sustainable practices in the industry; and building awareness of the nutritional benefits of palm oil.

The CPOPC will be an ideal platform for producer countries to ensure that the interests and development of the palm oil industry are safeguarded. I would therefore like to welcome other oil palm cultivating countries to become members.

Testing times for global economy

The theme of POC 2016 is 'Managing Market Uncertainties: Our Global Solution'. This is relevant in the context of the global economy being expected to grow at a slower pace this year, based on the 2015 performance – the World Bank estimates that the global economy grew at 3.3% in 2015. This slowdown has had repercussions on demand for palm oil, especially from major importers such as China and the European Union.

Notwithstanding slower global economic growth, the vegetable oils industry saw growth in production, partly due to favourable weather conditions in 2014 and 2015. This was reflected in the growth of global palm oil production, which increased by 5.3% in 2015 compared to 2014. Other vegetable oils that registered production growth were soybean oil at 7.7% and castor oil at 6.3%.

Palm oil remains a highly traded vegetable oil, accounting for 57.6% of the global trade in 2015. Malaysia contributed 31% of the global palm oil production and 36.4% of exports.

However, the combination of lower global economic growth and increased supply of vegetable oils does indeed lend to market uncertainty. As such, it would be pertinent for the oils and fats fraternity to formulate appropriate measures that insulate their businesses against market-based and global challenges.

In situations of price uncertainty, price discovery is necessary for traders to mitigate risk factors. To this end – as a major producer of palm oil and home of the most successful crude palm oil futures trading platform – Malaysia offers wide-ranging investment opportunities for institutions, traders, buyers, suppliers and risk managers. Bursa Malaysia's long years of experience in commodity futures markets constitute an important component in making it a viable and a robust exchange that should benefit all.

Another crucial component that upholds Malaysia's standing as a leading market-place for the oil palm industry is the credibility of supply-side factors; the same can also be said of our strong and deep capital market. All these have led to Malaysia being regarded as the world's price discovery centre for palm oil.

Malaysia, as the preferred benchmark for the pricing of palm oil globally, has attracted strong attention from international traders. The foreign trading participation for crude palm oil futures has continuously increased.

This is indeed an encouraging sign. More importantly, it reflects the level of maturity of, and access to, the Malaysian futures market. I am optimistic this will encourage more participation from overseas players in crude palm oil futures."

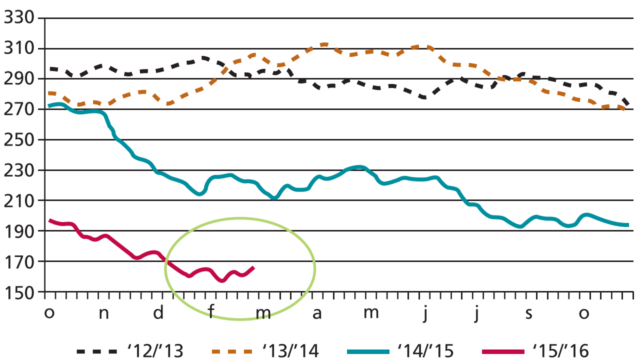
Slowdown in Palm Oil Output

Impact on vegetable oils market

The annual Palm & Lauric Oils Conference and Exhibition, Price Outlook 2016/17 – co-organised by Bursa Malaysia Derivatives Bhd and the CME Group – was held in Kuala Lumpur in March. It was themed 'Managing Market Uncertainties: Our Global Solution'.

The presentations included one by Mr Thomas Mielke, Director of ISTA Mielke GmbH, the publisher of *Oil World*. Selected slides on 'The slowdown of palm oil production and impact on global supply, demand and prices of major vegetable oils in 2016' are reproduced here with his notes.

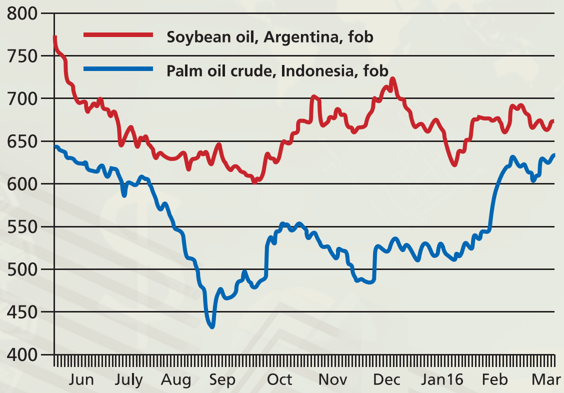
Slide 1 **Commodity Research Bureau (CRB) Index**



Prices of most commodities plummeting to multi-year lows in early 2016. They may have reached their bottom last month. Also:

- Economic slowdown
- High geopolitical risks
- Financial uncertainties
- Equity markets down in early 2016

Slide 2 Daily Prices of Soybean Oil & Palm Oil (US$/T)



Daily prices from 1 June 2015 until 7 March 2016

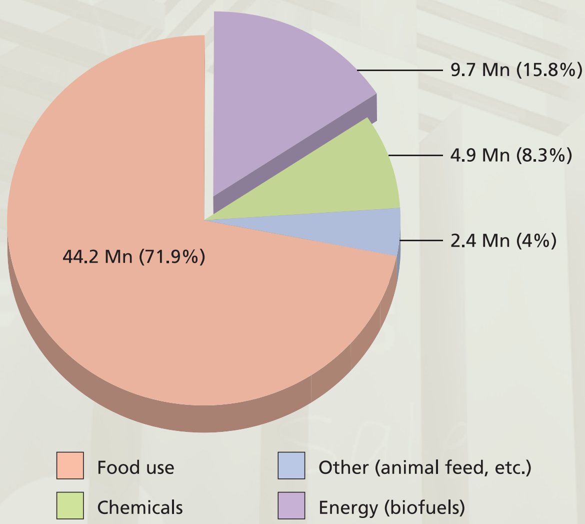
But vegetable oil prices have escaped the bearish trend. Palm oil prices have bottomed first. Indonesian PO up US$200 since August. Also soybean oil rising, while meal is on bearish trend

Slide 3 The price-elastic vegetable oil demand for energy has disappeared…

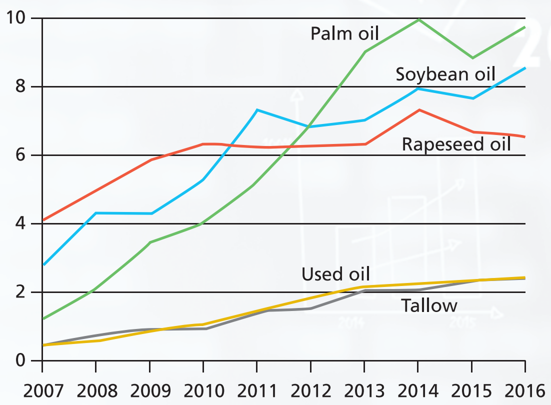
Biodiesel	2015	2014	2013	2012
Indonesia	*300*	1,380	1,690	1,410
Argentina	*790*	1,600	1,150	1,560
Total	***1,090***	**2,980**	**2,840**	**2,970**

-1.9 Mn T !! ➡ More palm oil & soybean oil exports pressuring on the world market

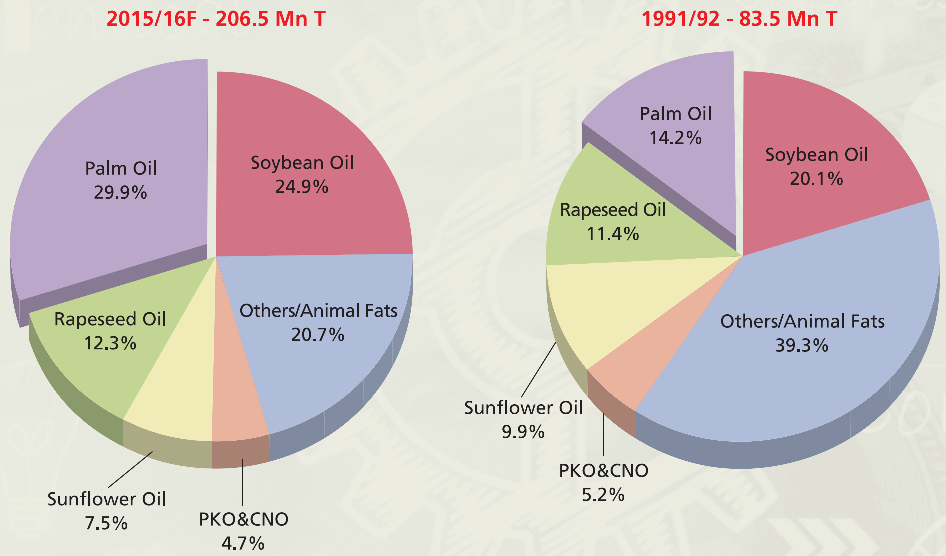
Slide 4 Palm Oil - World Consumption, by Category Jan/Dec 2015
Total: 61.2 Mn T



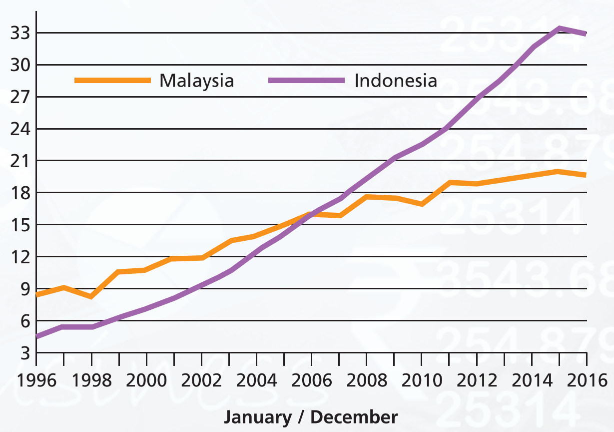
Slide 5 Biodiesel Use of Major Feedstock (Mn T)



Slide 6 World Production of 17 Oils & Fats



Slide 7 Palm Oil Production in Key Countries (Mn T)



Palm oil outlook in 2016 (in mil tonnes):

- Indonesia 33 vs 33.4 in 2015 and 31.4 in 2014
- Malaysia 19.7 vs 19.96 in 2015 and 19.67 in 2014

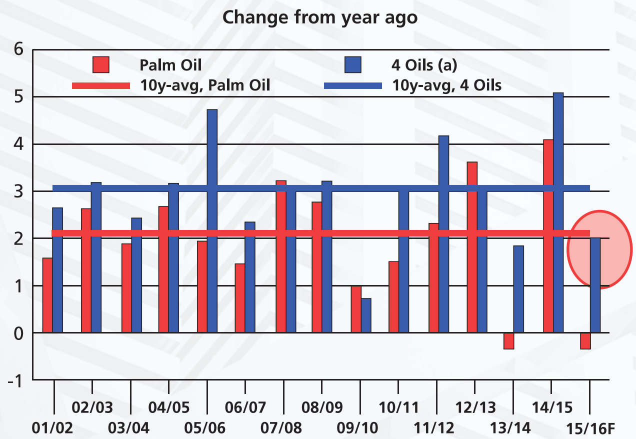
Slide 8

World Production (Mn T), Yields (T/ha) and Mature Area (Mn ha)

	Production				Yields		Mature Area	
	2016F	2015	2014	2013	2016F	2015	2016F	2015
Indonesia	33.00*	33.40*	31.40*	28.82*	3.62*	3.87*	9.12*	8.63*
Malaysia	19.72*	19.96	19.67	19.22	3.98*	4.18*	4.95*	4.78*
C&S America	4.03*	3.83*	3.44*	3.26*	3.17*	3.14*	1.27*	1.22*
Other Countries	5.48*	5.31*	5.23*	5.27*	1.99*	1.99*	2.76*	2.67*
World	**62.23***	**62.50***	**59.74**	**56.57**	**3.44***	**3.61***	**18.10***	**17.30***

Slide 9

4 Major Oils - World Exports (Mn T)



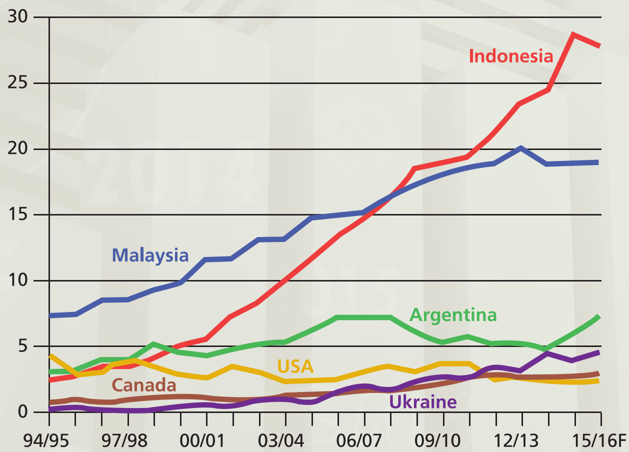
(a) Palm oil, soybean oil, sunflower oil & rapeseed oil

Below-average growth in palm oil exports

means also a much below-normal increase in total vegetable oil exports

Slide 10

17 Oils & Fats - Exports of Major Countries (Mn T)

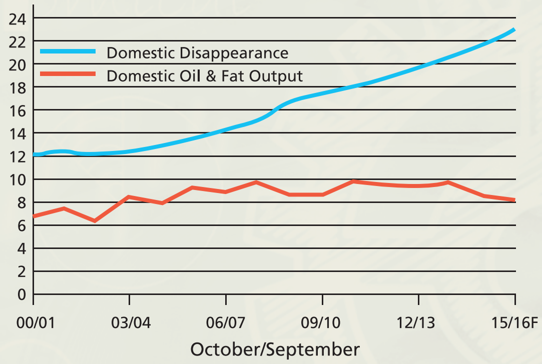


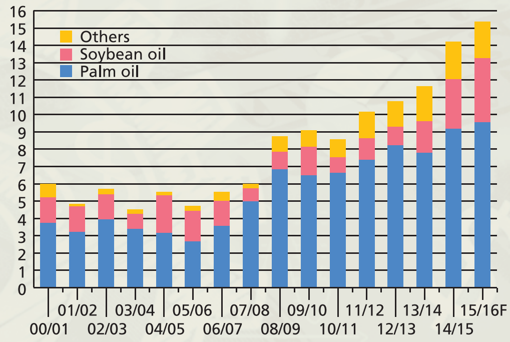
Slide 11 India Imports of 6 Oils (1000 T)

	Oct/Dec		Jan/Dec			
	2015	2014	2015	2014	2013	2012
Soybean oil	1,226	437	3,629	2,101	1,174	1,180
Sunflower oil	394	447	1,477	1,678	1,084	1,171
Rapeseed oil	66	118	332	227	57	93
Palm oil	2,751	2,497	9,496	7,931	8,472	7,817
Palm kernel oil	32	76	190	242	350	181
Coconut oil	1	5	8	9	4	9
Total	**4,470**	**3,580**	**15,132**	**12,188**	**11,141**	**10,450**

World palm oil exports increased steeply to 47.8 mil tonnes in 2015 (up 3.2 mil tonnes) – of which, to India 9.5 mil tonnes (up 1.5 mil tonnes)

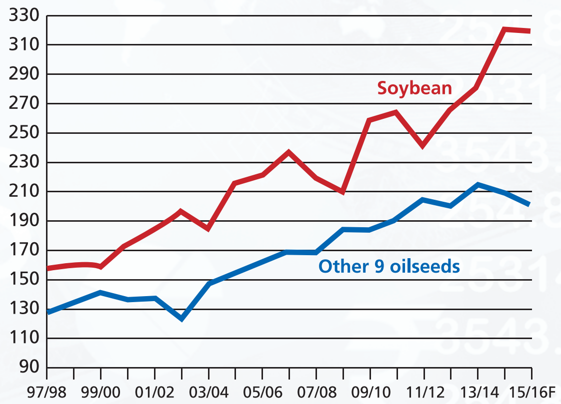
Slide 12 India's rising dependence on vegetable oil imports





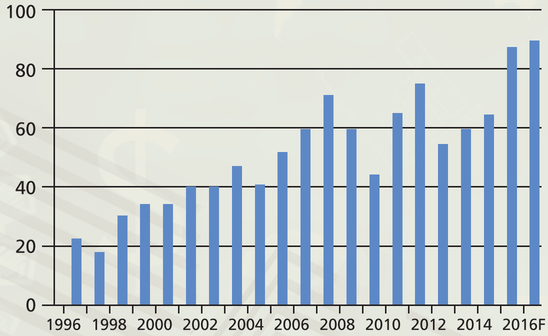
India's rising dependence on vegetable oil imports

Slide 13 10 Oilseeds - World Production (Mn T)



Production of soybean has increased much faster than that of other oilseeds. Most of which in South America and USA. Other oilseeds output down a combined 12.2 mil tonnes in two years to 15/16.

Slide 14 Soybean World Stocks as of end August (Mn T)

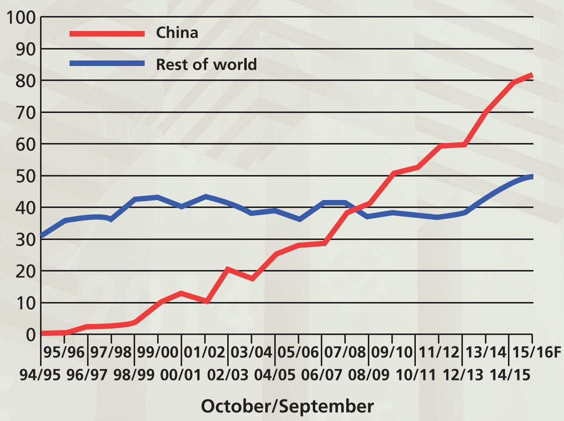


World soybean stocks are likely to rise to a new record of 90 mil tonnes at the end of this season (up 3). Soybean has probably not seen its price lows yet.

Slide 15 Soybean: World Production and Consumption (Mn T)

	15/16	14/15	13/14	12/13	11/12
Production	319	320	282	266	241
Consumption	316	298	276	261	262
Stock change	**+3**	**+22**	**+6**	**+5**	**-21**

Slide 16 Imports of Soybean (Mn T)

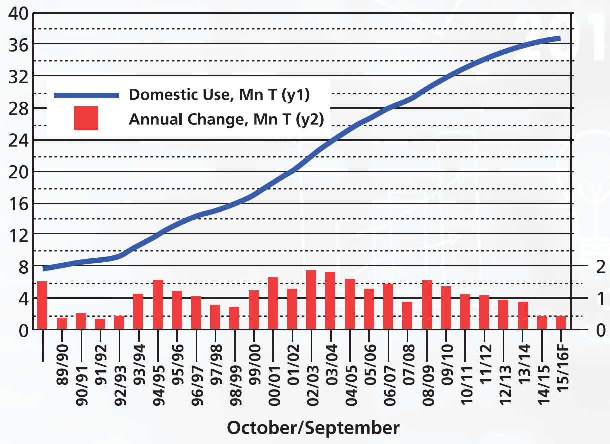


World soybean trade has quadrupled in the past 20 years (from 32 to 132 Mn T)

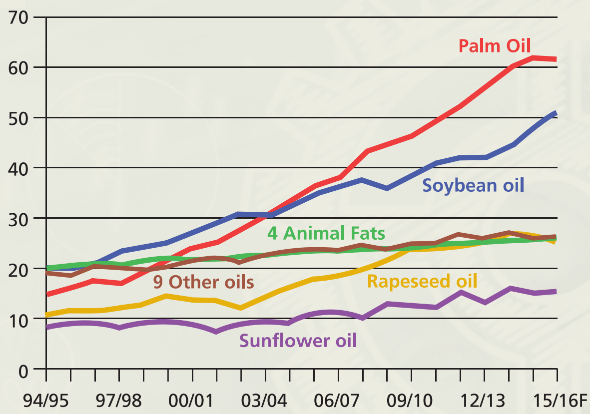
China absorbs 62% of world soybean imports

Also other countries raised imports

Slide 17 China Domestic Use of Oils & Fats

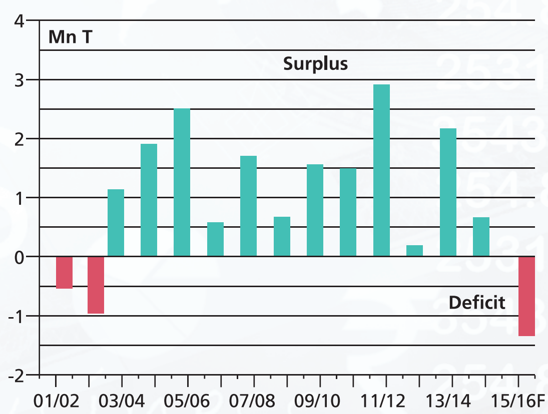


Slide 18 17 Oils & Fats World Production (Mn T)



Soybean oil output rises from 44.5 mil tonnes in 13/14 to 51.3 mil tonnes in 2015/16 (up 6.8 mil tonnes or +15%). Soybean oil share recovers to 24.8% in 15/16 from 22.2% in 13/14. World palm oil output 61.8 mil tonnes in 15/16 against 59.9 mil tonnes, +1.9 mil tonnes / +3%.

Slide 19 17 Oils & Fats Surplus/Deficit of Output vs. Usage



17 oils and fats in Oct/Sept 15/16:

- Production deficit
- Declining stocks
- Appreciating prices

Slide 20

17 Oils and Fats World Output & Consumption (Mn T)

	15/16F	14/15	13/14	12/13	11/12
Production	206.5 +2.7	203.8 +3.5	200.3 +11.5	188.8 +2.7	186.1 +8.8
Consumption	**207.8** **+5.7**	**202.1** **+4.0**	**198.1** **+9.3**	**188.8** **+5.8**	**183.0** **+7.2**
for energy	+1.0	-1.7	+3.8	+2.6	+2.5
other uses	+4.7	+5.7	+5.5	+3.2	+4.7
Stock change	**-1.3**	**+0.7**	**+2.2**	**+0.1**	**+2.9**

17 oils & fats in Oct/Sept 15/16:

- Production only +2.7 mil tonnes
- Total consumption growth to accelerate to 5.7 mil tonnes
- Recovery in biodiesel, driven by Indonesia
- Strong food demand

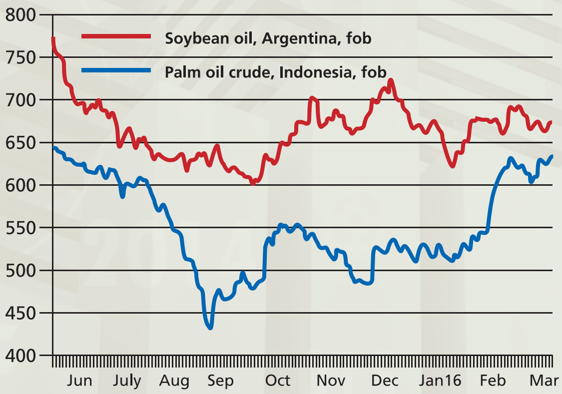
Slide 21

Demand drivers in Oct/Sept 15/16 are India and Indonesia with growth in mil tonnes:

- India +1.4
- Indonesia +1.2
- China +0.4
- Other Asia +0.9
- America +1.1
- European Union -0.2
- C.I.S. +0.2
- Africa +0.7

Slide 22

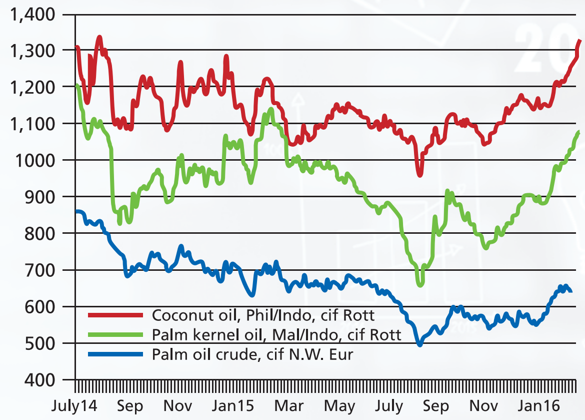
Daily Prices of Soybean Oil & Palm Oil (US$/T)



Daily prices from 1 June 2015 until 7 March 2016

Palm oil output and stocks to decline from last year in Jan/June 2016. Palm oil prices jumped to US$640 in Indonesia. How will this affect biodiesel output? Assumption only +1 mil tonnes. Additional upward potential of US$40-80. Or more, if new production problems occur?

Slide 23 Daily Prices of 3 Oils in Rotterdam (US$/T)



Daily prices from July 2014 until 7 March 2016

I forecast prices to reach till June or July in US$ in Rotterdam:

- Crude palm oil 700-750
- Palm kernel oil 1,000-1,050
- Coconut oil 1,250-1,300

Slide 24 Palm Oil World Production by Major Countries (Mn T)

	Forecasts			Actual Data			
Production	**2025F**	**2020F**	**2015**	**2010**	**2005**	**2000**	**1995**
Malaysia	**25.50***	**23.00***	**19.96**	**16.99**	**14.96**	**10.84**	**7.81**
Indonesia	**49.00***	**41.50***	**33.40***	**22.50**	**14.10**	**7.05**	**4.22**
Nigeria	1.47*	1.24*	.94*	.78	.80	.74	.66
Colombia	1.85*	1.50*	1.28*	.75	.67	.52	.39
Thailand	3.35*	2.76*	1.85*	1.36	.70	.53	.35
Other countries	8.83*	7.00*	5.04*	3.87	2.94	2.26	1.70
World	90.00*	77.00*	62.47	46.25	34.17	21.94	15.13

About 90 mil tonnes of palm oil required in 2025

Partnership on Sustainable Commodities

Between the EU and ASEAN

In May 2015, the European Union (EU) High Representative for Foreign Affairs and Security Policy and the European Commission adopted a Joint Communication (JC) on 'The EU and ASEAN: A partnership with a strategic purpose'.

This puts forward concrete ideas for taking relations between the Association of Southeast Asian Nations (ASEAN) and the EU to the next level by providing a more coherent framework for sectoral cooperation and by ensuring sharper political focus.

The JC highlights the opportunities available for the EU and ASEAN member-states, in particular Malaysia, to improve their trading relationship, as well as their positions in the global economy. This article addresses the JC and its effects on the sustainable production of key commodities through four questions.

1. What are the key sections of the JC that are relevant to Malaysia and its palm oil industry?

The JC is organised into five sections, some with sub-sections. The main sections are:

1. Introduction
2. Connectivity: Capturing the essence of regional integration
3. A greener partnership for a sustainable future
4. Cooperation on political and security issues
5. Moving towards a partnership with a strategic purpose

For Malaysia and its palm oil industry, the most relevant sections are sub-section 2.1 (Boosting trade, investment and business) and Section 3.

Sub-section 2.1 emphasises the intensifying trade and investment flows between ASEAN and the EU over the past decade. The JC points out that ASEAN is the EU's third-largest trade partner (after the US and China); and that the EU is ASEAN's second-largest trade partner (after China) with bilateral trade in goods and services amounting to EUR 238 billion in 2013. By the end of 2013, ASEAN foreign direct investment in the EU had reached EUR 57 billion.

The JC recognises that ASEAN member-states and the EU have undertaken negotiations on free trade agreements (FTA). In 2007, ASEAN and the EU launched negotiations for a regional FTA. However, in May 2009, after eight rounds of negotiations, the two partners agreed to put the discussions on hold due to the complexity and sensitivity of regional ('block-to-block') trade negotiations.

Instead, the EU decided to pursue the conclusion of bilateral FTAs, with a view to using such agreements as 'stepping stones' for the regional FTA. Thus far, the EU has concluded FTAs with Singapore and Vietnam; is conducting negotiations with Malaysia and Thailand, although these have been *de facto* suspended; recently launched negotiations with the Philippines; and will next start with Indonesia.

Section 3 on a greener partnership focuses on bilateral efforts to protect the biological diversity found in ASEAN, which provides natural habits for over 20% of the world's known plant and animal species.

The JC notes that, despite their significant differences in terms of economic development and the nature of their political systems, ASEAN and the EU share a strong commitment to, *inter alia*, regional integration and sustainable development. However, the JC notes that ASEAN faces a number of challenges derived from increased pressure on such resources.

The JC highlights a number of schemes adopted by the EU to promote sustainability in the ASEAN region, including the Forest Law Enforcement Governance and Trade Action Plan, aimed at improving forest governance and promoting trade in sustainably and legally harvested timber products; and efforts to fight illegal, unreported and unregulated fishing.

In addition, the JC puts forward specific initiatives to be jointly implemented by the EU and ASEAN in the area of sustainability, such as strengthening the collaboration on climate change; providing enhanced support to environment protection; and promoting sustainable production of key commodities, such as palm oil, rubber and coffee.

2. How can Malaysia and its palm oil industry boost trade, investment and business through the enhanced strategic partnership between ASEAN and the EU?

With respect to the EU-Malaysia FTA, negotiations were launched in October 2010. Following the seventh round of negotiations in April 2012, the two sides conducted meetings between technical working groups in September 2012.

Since those meetings, no additional negotiation round has occurred. Official documents from the European Commission's Directorate-General for Trade imply that such *de facto* suspension is due to difficulty in agreeing on the level of ambition of the FTA.

Regardless of the actual reasons for the lack of progress, both sides must act to resume talks as soon as possible. The EU has concluded agreements with Singapore and Vietnam, as well as launched negotiations with the Philippines. It appears that negotiations between the EU and Indonesia are set to commence soon.

So, a critical mass of ASEAN member-states (most of which can be considered Malaysia's competitors in the EU with respect to several products and commodities) are in the process of acquiring a comparative advantage in market access.

Importantly, negotiations on the Trans-Pacific Partnership Agreement (TPPA), to which Malaysia is a party, have concluded. This is relevant for two reasons: once operational, the 12-member trade bloc is estimated to displace up to 50% of EU trade with the Asia-Pacific; and it shows Malaysia's willingness to take part in a modern, highly ambitious trade agreement.

To offset the effect, the EU must pursue additional favourable trade relationships – just as with the ASEAN region, and as it recently began with Australia and New Zealand. All interested Malaysian business stakeholders should advocate the urgent relaunch of FTA talks with the EU.

3. Are there other initiatives that may have an effect on the relationship between the EU and Malaysia?

An ongoing plurilateral agreement of relevance – negotiations for which are expected to conclude in 2016 – is the Environmental Goods Agreement (EGA). It aims at promoting green growth and sustainable development by liberalising trade in environmental goods.

Negotiations are being conducted by 17 WTO members – Australia, Canada, China, Chinese Taipei, Costa Rica, the EU, Hong Kong China, Iceland, Israel, Japan, New Zealand, Norway, Republic of Korea, Singapore, Switzerland, Turkey and the US.

Although the EGA will apply on a 'most favoured nation' basis (meaning that all WTO members will benefit from the agreed tariff reductions), participating in the negotiating process allows members

to drive the liberalisation process, including deciding which products will be covered by EGA's advantageous provisions.

The list of proposed goods to be covered by the EGA is not publicly available, but reports suggest that it focuses primarily on high-tech industrial products such as devices for air pollution control, waste management, cleaner renewable energy and noise abatement.

There are questions as to whether the proposed coverage includes traditional goods that are 'green' by definition, such as commodities (palm oil, soybean, sugarcane and rapeseed) that are available in nature and which can be used, *inter alia,* for renewable energy production and for a multitude of other sustainable applications in industry and trade.

Nonetheless, despite the significance of natural resources such as palm oil to Malaysia's economy, the Malaysian government has so far chosen not to join the negotiations. This will limit Malaysia's ability to play a direct role in the definition of the EGA's product coverage or commitment levels at the plurilateral and multilateral level.

For this reason, the EU-Malaysia FTA must be seen as an opportunity for sustainable palm oil to achieve this degree of tariff preference and trade facilitation at least at the bilateral level, and to establish sustainable palm oil as a 'green product' within the EU. It is up to Malaysia to propose this and to negotiate accordingly.

4. What is the general 'take-away' from the JC on an enhanced strategic partnership between ASEAN and the EU?

At the bilateral level, the JC appears to pave the way for ASEAN member-states to secure, in the context of their bilateral FTAs with the EU, specific schemes concerning sustainable production of key commodities.

It is for this reason that it is imperative that the EU and Malaysia resume negotiations on an ambitious FTA. It could include dedicated chapters on key commodities, addressing, in relevant part, trade obstacles hindering access of such goods to the EU market.

Given Malaysia's decision not to take part in the EGA, these chapters should provide the opportunity for product-specific certification schemes on the sustainable production of commodities (like palm oil and rubber), ideally centred on regionally-agreed criteria or on schemes that are already in place at the national level.

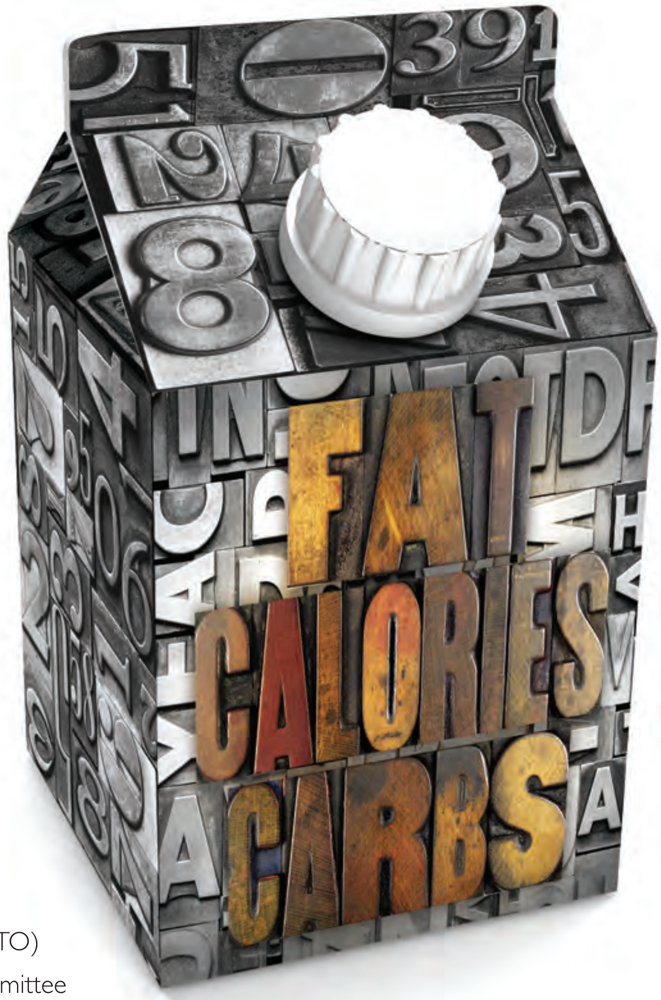
Such efforts should take place as soon as possible. The TPPA stands to have an enormous impact on trade flows throughout the world, and the EU is positioning itself to counter any negative effect that such agreement may have on its trade flows.

With the launch of the respective FTA negotiations between the EU and Australia, New Zealand, the Philippines and soon Indonesia, Malaysia cannot afford to lag behind. There are many issues and market access conditions that need to be tackled within the FTA with the EU, and this is an opportunity that should not be missed.

FratiniVergano
European Lawyers

HEALTH WARNINGS ON FOOD PRODUCTS

A growing trend



Attempts to reduce the visual appeal of consumer products – for health reasons – have been most noticeable in the tobacco sector to date. Some governments require graphic warnings on products and even 'plain packaging' – where trademarks must be removed or greatly limited; and colours and fonts standardised, so that the products are nearly indistinguishable.

A growing trend in the retail industry is the adoption of warning signs on packaging in the food and alcohol sectors. Disproportionate measures such as 'plain packaging' have not been implemented, but an increase in strategies to reduce the visual appeal of certain products is taking place.

One piece of major legislation that has attracted the attention of World Trade Organisation (WTO) members in the Committee on Technical Barriers to Trade (TBT) is an amendment to Chile's Food Health Regulation.

Decree No. 13 of April 16, 2015, requires a warning message in the shape of a black octagon (similar to a 'Stop' sign for traffic) to be placed on the front of the package with the words 'high in…' when food products exceed certain levels of energy, sodium, sugar or saturated fats.

The development of the amendment dates back to July 2012, when Chile published a Law on the Nutritional Composition of Food and its Advertising. The move was to pursue the objectives of the Health Ministry's 'Choose Healthy Living' programme, aimed at reducing consumption of so-called 'critical' nutrients.

This was a response to the increasing obesity rate and an apparent lack of consumer consciousness caused, in part, by the fact that Chileans are increasingly moving to cities, consuming more processed food and leading lives that are more sedentary.

This appears to be recognised internationally, including by the Organisation for Economic Cooperation and Development. It states that Chile ranks among the region's top five members for the incidence of diabetes and has the world's sixth-highest obesity rate (25%).

Chile proceeds with 'Stop' sign

On Jan 16, 2013, Chile notified the TBT Committee of the proposed amendment of its Food Health Regulation. Over the next two years, concerns raised by numerous members (Brazil, Mexico, Guatemala, the EU, the US, Switzerland, Australia, Argentina, Canada, Colombia and Costa Rica) at meetings of the TBT Committee had mixed results.

Chile originally responded to concerns by decreasing the scope of products affected by the measure, proposing the use of the phrase 'excess in …', and altering the symbol to be used. However, for the most part, the final version of the amendment, which takes effect on June 27, 2016, returns to the more restrictive nature of the original version.

It uses the phrase 'high in …' and retains the black octagon symbol. The limits triggering the warning will also be made stricter over time:

- From June 27, 2016, solid food with 22.5g/100g of sugar (and liquid foods with 6g/100g) will have to be labelled with a black octagon, which states 'high in sugar'.

- From June 27, 2017, the threshold will be lowered to 15g/100g of sugar (and liquid foods containing 5g/100g).

- From June 27, 2018, the label will be required for solid foods containing 10g/100g of sugar, but the liquid foods threshold will remain the same.

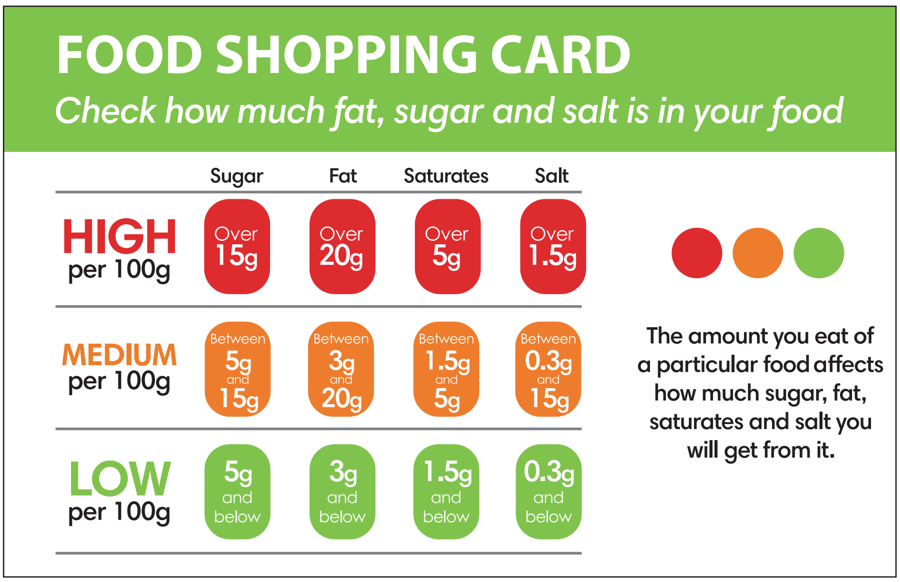
The limits for energy, sodium and saturated fats in solid and liquid foods will be similarly reduced over this period. At a meeting of the TBT Committee on Nov 4-6, 2015, Chile stated that it will review the impact of the measure in two years.

'Traffic light' scheme in Europe

Use of the 'traffic light' warning label in some countries in Europe is also of great concern to the food industry. This seeks to transmit naturally complex messages (the full nutritional profile) through a very simple means (a colour).

In June 2013, the UK issued a set of guidelines to be applied in cases where operators decide to use colour-coding as an additional form of expression. The 'traffic light' scheme includes affixing a label on the front of pre-packed foods and use of a colour-based code (red, amber or green) to draw attention to the amount of certain nutrients.

The system was recommended by the UK Health Ministry and Food Standards Agency. Although recourse to colour-coding is voluntary, operators must abide by the government's guidelines if they wish to put it in practice. Fortunately, in October 2014, the European Commission formally opened proceedings against the UK for its 'traffic light' system due to concerns that it is more trade restrictive than necessary.



Source: UK 'traffic light' label scheme

In France, the Parliament is considering the adoption of a 'simplified' nutrition labelling scheme that would take into account the caloric, fat, saturated fat, sugar and salt content of food and combine the results on a five-point scale with dots coloured green, yellow, orange, pink or red. The scheme is included in the draft French Public Health Act, which is still under debate.

The oils and fats industry must prepare for this type of regulatory constraints to develop *vis-à-vis* food products and beverages. Some retailers in France and Belgium have implemented use of the 'No palm oil' label, even though EU legislation already requires vegetable oils to be specifically named in the list of ingredients on food product packaging.

On Oct 27, 2015, retailers and distributers that are members of the French Trade and Retailing Federation – such as Auchan, Carrefour, Casino, Monoprix and Système U – had presented their proposal for a national simplified nutrition labelling scheme to various ministries and consumer associations at a meeting organised by the Ministry of Health.

The proposal, called *Aquellefréquence* ('how frequently'), specifies an algorithm for classifying food products by four colours (green, blue, amber and purple), depending on how often they should be consumed.

Threat to food producers

Although the measures being applied to tobacco products have not been extended to the food sector, it is important to recognise that such calls are increasingly being made by NGOs, governments and international organisations. One example is the call for a warning on sugar-based products, which is supported by the World Health Organisation.

In the US, a number of initiatives at the state- and city-level have been established. Notably, San Francisco adopted legislation in June 2015 requiring advertisements for sugar-sweetened beverages to state: 'WARNING: Drinking beverages with added sugar(s) contributes to obesity, diabetes and tooth decay. This is a message from the City and County of San Francisco.'

Such practices are misleading and arguable violations of EU law, which unfairly target certain competing products (like palm oil) and not particular substances (saturated fats) that are contained in all vegetable and animals fats used in the food industry.

For the most part, these anti-competitive industry practices are tolerated by governments, but the risk is that they may soon become, in differing forms and scopes, part of mandatory schemes imposed under specific regulations pursuing health protection objectives.

Mindful of the concerted attacks being waged against products like palm oil, coconut oil and palm kernel oil, producer countries must play an active role in monitoring policies and labelling schemes imposed by trading partners. This is to prevent decisions from being conceived and implemented in a manner that is disproportionate, distortive and discriminatory.

Any measure that demonises specific products or uses over-simplified slogans or labels to discourage consumption of certain substances should be resisted. The systemic interest at stake is too great to let these regulatory schemes develop unrestrained by the applicable WTO law.

FratiniVergano
European Lawyers

Argentina's
Rush to Crush Soybean

Devaluation of Peso behind this

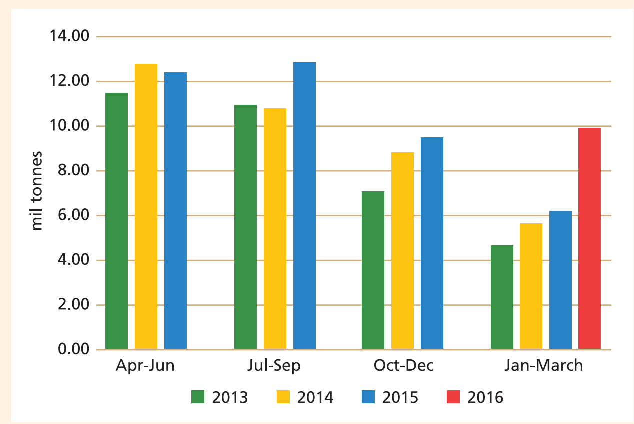
Recent policy changes in Argentina have helped energise many sectors of the agricultural economy. In addition to a lowering in the exchange rate and ending restrictions on converting Pesos to US Dollars, many export taxes and restrictions have also been eliminated.

For wheat, corn and sunflower seed, this has led to a surge in producer sales. For soybean and derived products, which have never faced export restrictions, export taxes were only reduced 5 percentage points, resulting in a more modest rise in producer sales.

Soybean processors, in contrast, have reacted to the lower exchange rate by dramatically increasing crush volumes. Accordingly, soybean crush for the first quarter of 2016 is forecast to rise nearly 60% over the same quarter in 2015, and is likely to exceed the quantity processed from October to December 2015.

Though processors in Argentina have generally been increasing meal and oil production from year to year in response to rising global demand, a strengthening Peso –

Figure 1: Argentina – quarterly soybean crush volume



Source: USDA

when accounting for inflation – had been significantly impacting competitiveness and profitability of the sector. With a 40% devaluation of the Peso on Dec 19, 2015, coupled with continued depreciation, both competitiveness and profitability have improved dramatically.

Processors anticipated the change and have been holding additional stocks that are now being rushed to market. This expansion is expected to continue for the next few months when additional supplies from the 2016 harvest will become available. Subsequently, crush is expected to resume growing in line with historical trends.

The rapid increase in Argentine processing activity in early 2016 will be felt by other soybean meal and oil exporters who will now face additional competition in global export markets. This higher crush could also add downward pressure on meal prices worldwide.

Global soybean overview

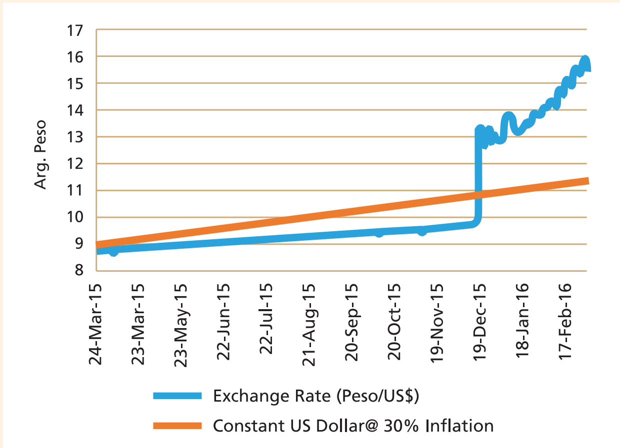
Global production went down in March 2016 on lower estimates for Russia and Serbia while exports were raised on greater shipments from Brazil. Imports were boosted with growing demand in China and Bangladesh, more than offsetting reduced shipments to the European Union (EU), Mexico and Pakistan.

Global stocks were also lowered, reflecting rising crush in Argentina and strong demand for protein meal. The US season-average farm price were slightly lower.

In terms of price, US export bids in February, FOB Gulf, averaged US$345/tonne, down US$10 from January.

As at the week ending Feb 25, the US 2015/16 soybean export commitments (outstanding sales plus accumulated exports) to China totalled 26.7 million tonnes, compared with 29.7 million tonnes a year ago. Total commitments to the world were 42.4 million tonnes, compared with 47.6 million tonnes for the same period last year.

Figure 2: Argentina – exchange rate* and constant US Dollar trends



Source: US Treasury

2015/16 trade changes

- **Argentina**

  Soybean meal exports are up 1.1 million tonnes to 32.8 million tonnes; and soybean oil exports are raised 165,000 tonnes to 5.9 million tonnes in response to a larger crush forecast.

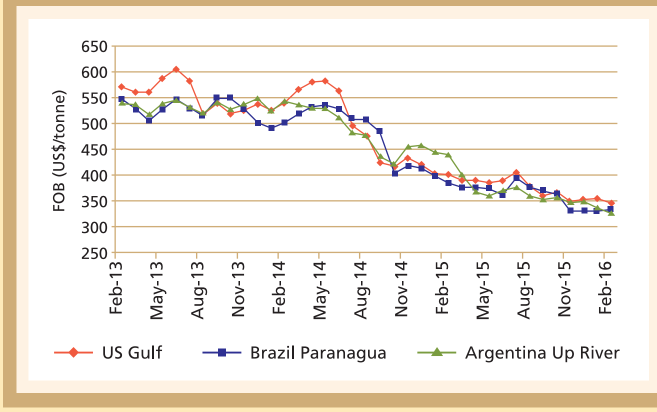
- **Bangladesh**
  Soybean imports are up 100,000 tonnes to 1.1 million tonnes on a strong pace of trade to date.

- **Brazil**
  Soybean exports are boosted 1 million tonnes to 58 million tonnes on strong demand mainly from China.

- **Canada**
  Rapeseed exports are up 300,000 tonnes to 9.3 million tonnes, reflecting strong demand from the EU.

- **China**
  - Soybean imports surge 1.5 million tonnes to 82 million tonnes, reflecting a strong pace of trade in the first half of the marketing year and continued strong demand for protein meal.
  - Rapeseed imports are down 100,000 tonnes to 4.2 million tonnes on an expected slower pace of trade, due to lower exportable supplies in Australia and growing soybean imports.
  - Palm oil imports are reduced 200,000 tonnes to 5.5 million tonnes as rising soybean crush is providing additional supplies of domestically produced vegetable oil.

Figure 3: Americas – soybean export prices



Source: USDA

- **EU**
  - Soybean meal imports are raised 400,000 tonnes to 20.7 million tonnes in response to larger supplies of competitively priced Argentine meal.
  - Soybean imports are lowered 500,000 tonnes to 13.2 million tonnes as increased meal imports reduce the need for soybeans for crush.
  - Rapeseed imports are up 400,000 tonnes to 2.8 million tonnes, reflecting strong domestic demand.

Foreign Agricultural Service/USDA, March 2016

Bulgaria: Open to Palm Oil

Stable sales recorded

The Republic of Bulgaria, located in south-eastern Europe, was once part of the Communist Eastern Bloc. Today, it is a member of the European Union and NATO, and has a population of about 7.2 million.

According to *Eurostat*, Bulgaria in 2014 reached a Gross Domestic Product (GDP at purchasing power parity) per head of EUR 12,800. This makes it the poorest country in the region, below Romania (EUR 15,200) and Croatia (EUR 16,100).

The country managed a swift turnaround after a steep decline in GDP following the financial crisis of 2009. Over the current decade, growth rates have been modest but positive. Despite many changes in political leadership, Bulgaria has improved its position in the World Economic Forum s Global Competitiveness Ranking. It stands 54th out of 144 countries.

It is now an international centre for the outsourcing industry. Many known names belonging to multinational companies have set up shop in Sophia and operate call centres or perform other corporate services.

The country's coastline along the Black Sea features two important harbours, Burgas and Varna. Both are part of the Trans-European Networks. The city of Rousse, located near the border with Romania and only about 80km from Bucharest, is Bulgaria s largest Danube harbour and opens the way to western Europe.

Palm oil purchases

The only vegetable oil produced domestically in notable quantities is sunflower oil at 348,000 tonnes in 2014. This was double the amount produced in 2009. Rapeseed oil output was recorded at about 28,000 tonnes in 2014, also almost double the 2009 volume. Figure 1 shows the recovering production volumes, as well as the relative dominance of sunflower oil.

Between 2009 and 2014, Bulgaria steadily increased its palm oil imports from 33,300 tonnes to 51,800 tonnes. This was sourced at roughly equal parts from Indonesia, Malaysia and via Greece which has strong economic ties with Bulgaria.

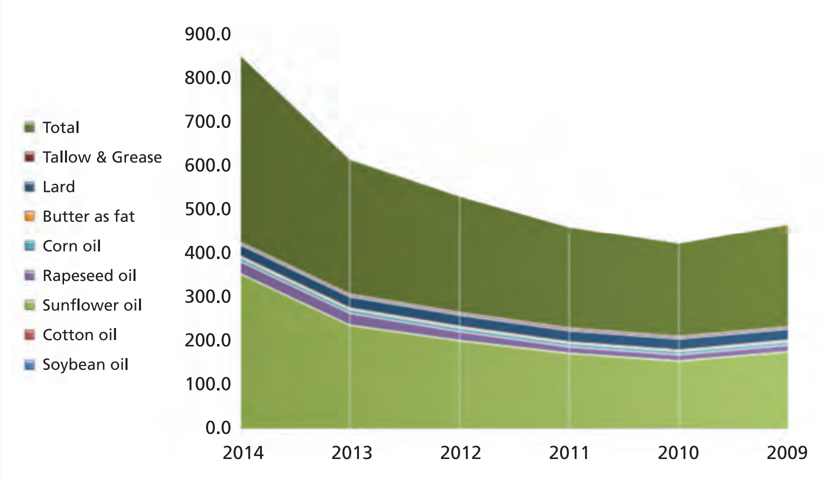
Palm oil accounted for more than half of the country s oils and fats imports over the same period. As Figure 2 indicates, demand for Malaysian palm oil saw ups and downs, but the quantities purchased have remained remarkably stable (see dotted line).

Economic opportunities

True to Bulgaria s historical heritage and geographical proximity to Greece and Turkey, the traditional cuisine revolves around the use of olive oil and sunflower oil. Still, since Bulgaria has a strong Muslim community, there are opportunities to develop the halal food segment with the aid of palm oil.

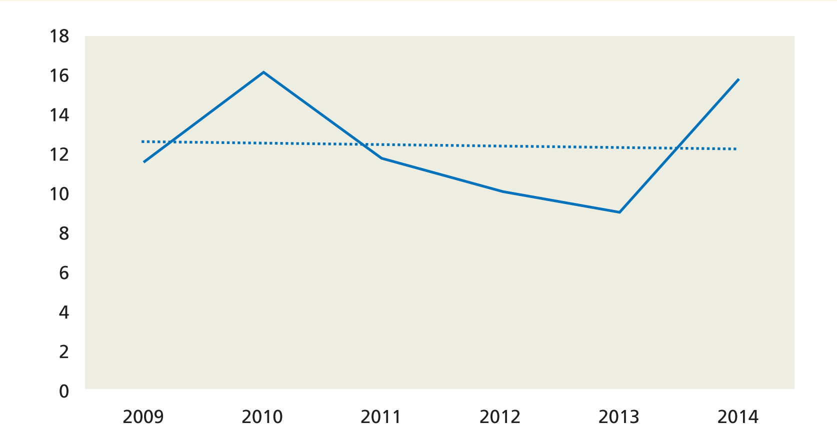
The positive image that Malaysia enjoys among many Bulgarians may be used as a foundation for further cooperation. In particular, the country seems interested in exploring ways to intensify B2B links.

Figure 1: Bulgaria – oils and fats production (thousand tonnes)



Sources: Oil World Annual 2014 & 2015

Figure 2: Bulgaria – import of Malaysian palm oil (thousand tonnes)



Sources: Oil World Annual 2014 & 2015

For instance, Bulgaria – while striving to brand itself as an exporter of healthy food products – lacks the expertise to process raw materials. Malaysian companies could develop long-term partnerships by bringing the requisite patents and technologies to the table.

And if the industry succeeds in convincing decision makers of the wholesome qualities of a diet that includes palm oil, interest could well rise in related products.

MPOC Brussels

Croatia: Small, but Attractive Market

A recent EU member-state

The Republic of Croatia enjoys international fame for its long Adriatic coastline dotted with hundreds of beautiful islands. These are the basis for the country being one of the top 20 tourist destinations in the world. Around 10 million visitors go to Croatia every year.

However, its main economic strength is also a weakness: there is over-reliance on tourism. This sector contributes about 20% to the Gross Domestic Product (GDP), making the country vulnerable to changes in travel habits.

Following the global financial crisis of 2008, Croatia lost almost one-sixth of its economic base. Today, it is still in the process of recovery.

It has a population of only 4.3 million – and the number has been shrinking in recent years. Unemployment, recorded at about 18%, is painfully high, while youth unemployment at 45% is a particular problem. Public debt, at 85% of GDP, is another area of serious concern.

Once a part of Yugoslavia, Croatia joined the European Union (EU) only in 2013. Certain structural reforms are still pending to the labour market and public enterprises, among other sectors. In order to comply fully with EU standards, the reforms will have to be carried out.

According to *Eurostat*, Croatia's GDP per head at purchasing power parity in 2014 was EUR 16,100 – third-lowest in the EU, after Romania and Bulgaria. However, it was more or less on par with that of Hungary and Poland, which had both joined the EU a decade before Croatia.

In 2015, Croatia returned to growth for the first time since 2008. Although its overall economy remains relatively weak, the food processing industry shines as the dominating sector.

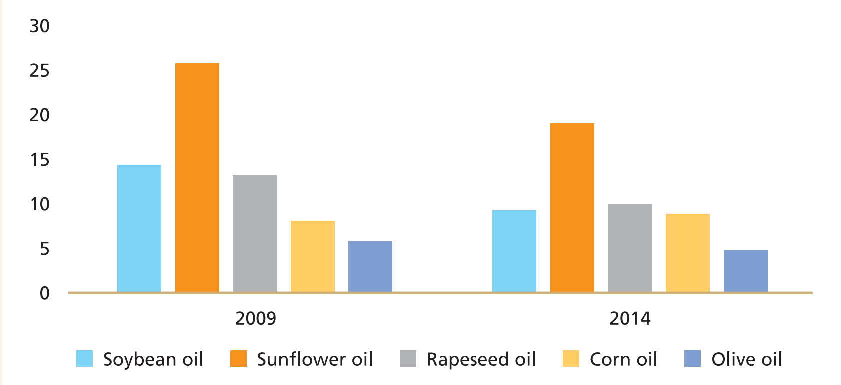
Place for palm oil

Croatia's lower production of oil from three major oil crops – soybean, sunflower and rapeseed – has reflected its general economic malaise. Low volumes have been recorded since 2009, up to 2014 (Figure 1).

Over the same period, imports of the three commodities multiplied (Figure 2). Olive oil imports also went up, although at a lower level. Palm oil stood its ground, holding third spot among imported vegetable oils in 2014.

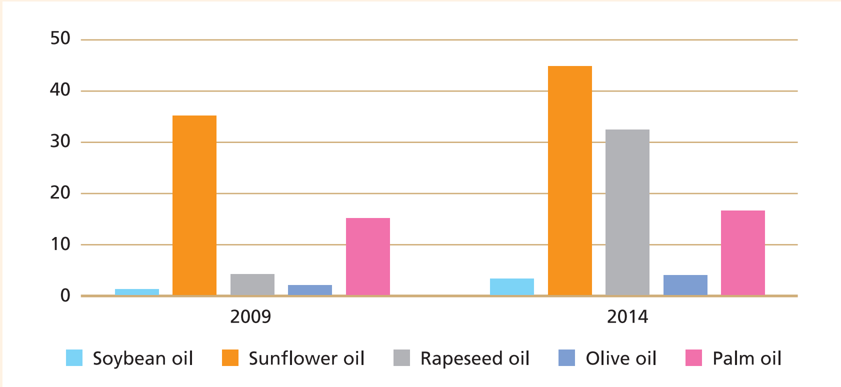
Based on MPOB statistics, direct export of Malaysian palm oil products to Croatia increased by over 36% between 2013

Figure 1: Croatia – vegetable oil production (thousand tonnes)



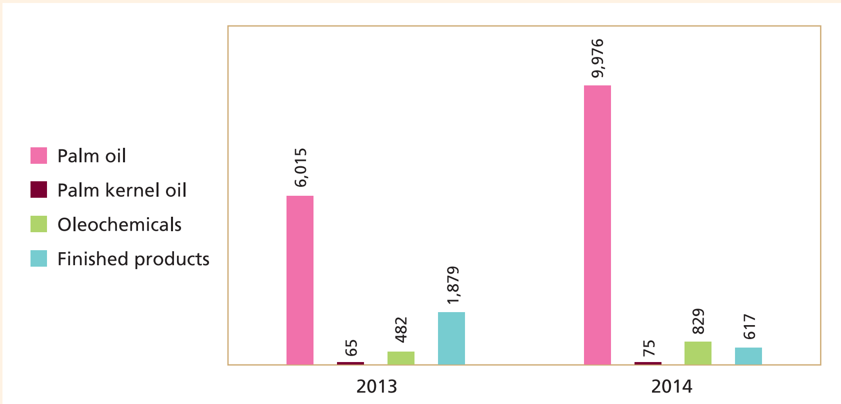
Sources: Oil World Annual 2014 & 2015

Figure 2: Croatia – major vegetable oil imports (thousand tonnes)



Sources: Oil World Annual 2014 & 2015

Figure 3: Croatia – import of Malaysian palm-based products (thousand tonnes)



Source: MPOB

and 2014. Palm oil exports grew by 66%, oleochemicals by 72% and palm kernel oil by some 15%. Finished products, however, showed a 67% drop.

Business prospects

Croatia offers important assets to the business and industrial communities, starting with its political stability.

Its main port, Rijeka, is a major gateway for Eastern European countries to the international markets and *vice versa*. In particular, the landlocked countries of Austria and Hungary operate freeports in Rijeka. This way they – together with several companies located in southern Germany – take advantage of the relatively short routes to the Middle East and the Far East.

Another attraction for those interested in doing business is Croatia's ambition to become a leading regional player in food production and distribution. The growth of two major local companies illustrate this point.

The Agrokor Group is a leading food producer and retailer in the south-eastern European region. According to its website, Agrokor was the leader in 2014 in five regional markets – Slovenia, Croatia, Montenegro, Serbia, and Bosnia and Herzegovina. Its annual income that year was cited as EUR 6.5 billion, generated by around 55,000 employees.

Agrokor Group holds the majority stake in leading regional brands, such as ice cream producer Ledo. Other recognisable names in its stable are from the edible oils segment, mainly olive oil, as well as Croatia s largest supermarket chain, Konzum, with over 700 stores.

The second case in point, Atlantic Grupa, is a multinational company that has been in operation since 1991. Its website states that it is a leading food company in the region. It produces snacks and chocolate spreads, among other items. The company is also active in marketing cosmetics and over-the-counter pharmaceuticals. It is supported by its own distribution network, which currently services companies like Unilever.

In the days of the socialist Yugoslav federation, Croatia was the second most prosperous member. It is clear that the entrepreneurial fervour has not been lost over the years. On balance, Croatia offers some of the more attractive business prospects among post-communist states in Central and Eastern Europe.

MPOC Brussels

Weather events force fall in global palm oil output

Global palm oil production could fall by over 2 million tonnes this year because of the drought caused by *El Nino*, while further declines may occur due to heavy rains from *La Nina* later this year, a leading industry analyst said.

"*El Nino* will pull world 2016 CPO output down by over 2 million tonnes. A Q3 to Q4 *La Nina*, with heavy rains, would reduce 2016 output by a further 0.4 million tonnes," said James Fry, Chairman of commodities consultancy LMC International, at an industry conference in Kuala Lumpur on March 9.

El Nino brings scorching heat across Southeast Asia, lowering oil palm fruit yields in top growers Indonesia and Malaysia, which produce about 85% of global palm oil. *La Nina* typically causes more rain in both countries.

Fry had earlier forecast Southeast Asian production to fall by 4 million tonnes in 2016 on static output in Indonesia, while Malaysia will record a decline as a result of *El Nino*, which Fry said is the strongest since 1997.

He also forecast CPO prices to climb to RM2,750 per tonne by June on a Brent crude oil forecast of US$35 a barrel, and hit RM2,900 if oil reaches US$40.

"Free-on-board (FOB) CPO will be US$700 by June... As output picks up, the July to December average price will fall back to US$625 FOB and the price will fall further as 2017 unfolds if oil prices are at US$35," said Fry.

FOB CPO prices would reach US$735 a tonne on US$40 a barrel oil while palm kernel oil will average US$425-450 above CPO in 2016, supported by weak output of oil palm and coconut oil, he said.

Dorab Mistry, a Singapore-based director with Indian consumer goods company Godrej International, said Malaysian palm oil output is expected to decline by a million tonnes for the first half of the 2016 calendar year.

At the 13th International Oils & Oilseeds Conference in Beijing in March, he noted that Malaysian production for the first two months of the year was running more than 100,000 tonnes lower than the corresponding period a year ago. The deficit was expected to expand to at least 350,000 tonnes by the end of March.

"From July we can expect some recovery. However, we have had severe dry weather in Sabah since the second half of January and that is likely to continue until the first half of April. Sabah palm oil production will suffer an extended impact around September 2016."

Mistry maintained his estimate for Indonesian palm oil production to fall by 1.2 million tonnes and that prices would reach RM3,000 this year.

Indonesian output was forecast to fall in February to 2.3 million tonnes from 2.44 million tonnes a month earlier due to drought and forest fires, its lowest levels in a year. Its annual output is expected to fall to 32.1 million tonnes this year, the first decline since 1998, said the Indonesian Palm Oil Association.

Source: Compiled from Reuters reports, March 19 & 28, 2016

Profits ahead for Southeast Asian palm oil firms

Palm oil inventories are set to drop further as *El Nino* chips away at yields in Southeast Asia, boosting a rally in prices and helping producers rake in more profits for the first time since 2011.

Palm oil prices have risen almost 9% over two months. Analysts expect the trend to sustain this year as *El Nino* cuts global output by 2-3 million tonnes, exports pick up and top producers Indonesia and Malaysia mop up more of the oil to meet higher 2016 biodiesel mandates.

Malaysian inventories hit an eight-month low of 2.17 million tonnes in February and, according to MIDF Research, could slump to 1.5 million tonnes later this year – the lowest since early 2011.

Brokerage UOB Kay Hian says there is a high possibility of the world's biggest buyers, India and China, replenishing their palm oil supplies after low imports in February, tightening stockpiles further. Demand is also likely to get a boost before the Muslim holy month of Ramadan, which begins in June and when consumption of edible oils rises.

Malaysian exports had already picked up 10.5% month-on-month in the first half of March, a cargo surveyor data shows.

This combination of factors could not have come at a more opportune time for Southeast Asian palm oil producing firms, which have been struggling with declining cumulative profits for the past four years with prices down around 22%.

Twelve of the biggest such companies, including IOI Corp and Golden Agri-Resources Ltd, are expected to report combined profit growth of 20% in 2016, according to Thomson Reuters StarMine Mean Estimates.

The challenge for them will lie in their ability to control costs linked to lower output and a 5% tax on April CPO exports from Malaysia after 11 months of duty-free sales.

"It is possible that profits will improve as a result of higher prices but we have to bear in mind that profits will be held down by increasing costs," said Roy Lim, group plantations director of Kuala Lumpur Kepong Bhd.

Source: Reuters, March 18, 2016

Malaysian smallholders reject proposed French palm oil tax

France's proposal to impose an additional tax on palm oil will harm the lives and livelihoods of over 300,000 small farmers in Malaysia for whom oil palm cultivation is an essential lifeline.

"This tax is unfair, unjustified and discriminatory towards millions of small farmers worldwide. In Malaysia, today, more than one million people would be affected by this damaging new tax," said Dato' Haji Aliasak Haji Ambia, President of the National Association of Smallholders Malaysia (NASH).

"Palm oil is a lifeline for smallholders: it enables them to provide prosperity for their families and communities, lifting them out of poverty," he said in a press statement.

"The French Government claims to be a friend of the developing world, but this new tax will hurt millions of small farmers and local communities who depend on palm oil. The proposed tax in the French National Assembly is a tax on poor people and a tax on small farmers."

NASH jointly operates the 'Human Faces of Palm Oil' project along with the Sarawak Land Consolidation and Rehabilitation Authority and the Malaysian Palm Oil Council.

The social, economic and environmental benefits of palm oil have been recognised across the developing world, with Malaysia as a global model for smallholder development. Some 40% of its oil palm acreage is owned or managed by small farmers.

Palm oil is one of the most successful poverty alleviation tools in Malaysia, having helped to bring down the poverty rate from 50% after Independence, to less than 5% today.

Source: http://www.facesofpalmoil.org, March 24, 2016

A step closer to free trade between Malaysia and EU

The Malaysia and EU Partnership and Cooperation Agreement (MEUPCA), initialled on April 6, has cleared the way for a Free Trade Agreement to be negotiated between the two parties.

Initialling the agreement for Malaysia was chief negotiator Datuk Ilango Karuppannan, with Ranieri Sabatucci representing the EU.

Malaysian Deputy Foreign Minister, the Hon. Datuk Seri Reezal Merican Naina Merican., witnessed the ceremony in Putrajaya.

The MEUPCA encompasses 60 articles covering a broad range of economic and non-economic sectors in Malaysia and the EU.

"This will serve as a catalyst to strengthen bilateral relations between Malaysia and enhance cooperation in wide-ranging areas including political relations, trade and investment, energy, transport, agriculture, finance, maritime affairs and other areas through dialogue and exchanges of information," said Ilango.

"The MEUPCA is also an umbrella agreement that will provide the impetus in concluding other bilateral agreements."

Source: Star Online, April 7, 2016

Colombia zero-rates palm oil imports for six months

Colombia has offered a temporary tariff reduction for palm oil and derived products. It has published a decree authorising imports of palm oil at zero rate from the previous 40%, from Feb 29 to Aug 29, 2016, said the Malaysia External Trade Development Corporation (MATRADE).

The reduction applies to palm oil-related categories such as CPO, palm oil and its fractions – whether or not refined, but not chemically modified; crude palm kernel oil; vegetable oils and fats (hydrogenated and re-esterified); margarine (excluding Liquid Margarine); other mixtures or preparations of vegetable oils and fats; and vegetable and animal oils and fats.

Oleochemical products such as stearic acid, oleic acid, and other monocarboxylic industrial fatty acids are included in the measure, MATRADE said in a statement.

Its Trade Commissioner in Miami, Mohd Nadzri Saadon, said this represents a good business opportunity for palm oil and oleochemical manufacturers to make inroads into the Colombian market, provided they can come up with a competitive landed price.

"Based on our interactions with Colombian importers, the sharp depreciation of the Colombian peso against the US Dollar and the fact that Ecuador, the main supplier of palm oil to the market has adopted the US Dollar as its legal tender, has hurt the country's importers by making imports more expensive," he added.

Colombian trade statistics show that imports of palm-based products in 2015 were valued at US$129 million. Malaysia's share is valued at US$917,000 (0.71%) of the import market.

Source: Bernama, April 7, 2016

France Works on Biodiversity Law

Special tax revised

On March 17, France's National Assembly (Lower House of Parliament) adopted a revised version of the Draft Law for the Recapture of Biodiversity, of Nature and Landscapes (Draft Law).

It aimed at introducing a special tax on palm oil, palm kernel oil and coconut oil with yearly increases until 2020, but provided for an exception if these products are certified as sustainable. If adopted and then implemented, the tax will significantly hinder the importation and use of palm oil, as well as food products containing palm oil.

The Draft Law was sent back to the Senate (Upper House) for consideration. The second public reading by the Senate took place from May 10-12, 2016. Contrary to the National Assembly, the Senate voted to eliminate the provision establishing the special tax on the three products.

However, the Draft Law must be approved by consensus of both the National Assembly and the Senate. The text adopted in each chamber must be identical in order for it to become law.

If a Draft Law is not adopted as written (i.e. if consensus is not reached after two readings in each chamber), a Joint Commission composed of seven members from each chamber will be established. It will be tasked with developing a compromise Draft Law, for a vote by both chambers.

A Joint Commission was established for the Draft Law, but was unable to deliver a compromise. When there is no agreement on a compromise Draft Law, or if one of the chambers rejects it, the government may submit the Draft Law for an additional reading in both chambers. If these are still unable to reach a consensus, the government may submit the Draft Law for a final and definitive reading in the National Assembly.

On May 25, the Draft Law was submitted to the National Assembly for a new reading. At the time of writing, it remains uncertain whether the discussion will be concluded before the summer recess.

Confusing claims

As matters stood previously, the special tax on palm oil would have increased from the current EUR 103.71 per tonne, to EUR 133.71 per tonne in 2017 and all the way up to EUR 193.71 per tonne in 2020. The special tax on palm kernel oil and coconut oil would have increased from the current EUR 113.14 per tonne, to EUR 143.24 per tonne in 2017 and EUR 203.14 per tonne in 2020.

These levels must be compared to EUR 188.96 per tonne of olive oil, EUR 170.13 per tonne of peanut and corn oil, and EUR 87.16 per tonne of colza oil, among others.

Clearly, there is no uniformity of treatment of 'like products'. There is also no scientific basis if (as proponents claim) the objective of the tax is to discourage consumption of saturated fats, which contribute to obesity and cardiovascular disease when consumed in high amounts.

The discrimination and lack of scientific basis are even more evident and disturbing if compared with the absence of a special tax on oils derived from cocoa butter, shea butter and animal fats. The food industry uses animal fats and milk, which often have a very high content of saturated fats.

If the French really want to fight obesity and cardiovascular disease – undoubtedly a legitimate policy objective – it is not clear why they do not neutrally tackle all 'like products' on the basis of their saturated fats content. Why would they discriminate on the basis of origin of the oils, among and between vegetable oils and animal fats?

Another stated objective is to fight environmental degradation and deforestation, and to encourage consumption of sustainable palm oil as well as its certification. However, it is not clear which sustainability criteria will apply to products derived from palm oil, in order to qualify for the proposed tax exemption.

An amendment, tabled in the Senate prior to the elimination of the provision, merely called for neutral and independent bodies to be in charge of determining the sustainable character of the products. The implementing mechanisms would likely have been adopted at a later stage by decree.

Draft Law – Chronology of Events to Date

- **March 26, 2014:** The Draft Law from the Ministry of Ecology, Sustainable Development and Energy is tabled before the National Assembly.

- **June 26, 2014:** The National Assembly's Commission for Sustainable Development and Spatial Planning (Commission) files a report on the Draft Law.

- **March 24, 2015:** The National Assembly holds its first reading of the Draft Law and adopts it by a vote of 325 to 189. This version does not include the provisions now affecting palm oil.

- **March 25, 2015 – Jan 26, 2016:** The Senate considers the Draft Law. In all, 674 amendments are tabled - No. 367 provides for an addition to a special tax on on palm oil, palm kernel oil and coconut oil in their natural state and in food products.

  This proposes to raise the tax to EUR 300 per tonne in 2017; EUR 500 per tonne in 2018; EUR 700 per tonne in 2019; and EUR 900 in 2020. It is to be then raised each year on Jan 1, from 2021 onwards.

- **Jan 26, 2016:** The Senate adopts the Draft Law, including Amendment No. 367, by a vote of 263 to 32.

- **March 1-9, 2016:** Debate and amendments follow within the Commission, as well as by the National Assembly as a whole.

- **March 15-17, 2016:** The National Assembly adopts a revised version of the Draft Law during the second reading. Instead of the fixed tax rate, the Draft Law returns to the 'tiered' structure. It sets the tax rate at EUR 30 per tonne in 2017; EUR 50 per tonne in 2018; EUR 70 per tonne in 2019; and EUR 90 per tonne in 2020.

  Twelve amendments relating to the tax are tabled during the Commission's review. Amendment No. CD436 introduces a sustainability exemption to the palm oil, palm kernel oil and coconut oil tax that is approved by the National Assembly. However, the environmental sustainability criteria are not stated.

- **March 18, 2016:** The Draft Law is sent back to the French Senate – in particular, to the Commission – for discussion.

- **May 4, 2016:** The Commission files its report and proposes the elimination of the provision establishing the special tax on palm oil, palm kernel oil and coconut oil.

- **May 9 & 10, 2016:** Several Senators and the government table amendments calling for the retention of the provision establishing the special tax on the three oils.

- **May 11, 2016:** The Senate rejects the amendments calling for the retention of the provision by a vote of 159 to 138. The provision remains eliminated from the Draft Law.

- **May 25, 2016:** The Parliament's Joint Commission debates the Draft Law but is unable to reach compromise. It is sent back to the National Assembly for a new reading.

Even so, and while this objective may be noble in its intent, it appears discriminatory inasmuch as no similar sustainability criteria apply to other oils, whether of vegetable or animal origin.

Forests are being cut down around the world to clear land for soybean production, cattle grazing and the production of other commodities used in the food industry. Similarly, many vegetable oils that are used are not sustainable in that their yield per hectare is greatly inferior to that of palm oil and require abundant herbicides, pesticides and fertilisers to be produced and applied.

Why is France focusing only on the environmental sustainability of palm oil? Why are there no scientific criteria on which to base its proposed measure?

From a logical if not legal perspective, the mixing of the nutritional and environmental objective into a single 'special tax' is, at best, singular. Assuming that most palm oil used for human consumption is sustainably produced, does that mean that its use would no longer be considered problematic from a nutritional perspective?

Both sustainable and unsustainable palm oil contain saturated fats. Yet, only the consumption of unsustainable palm oil would be discouraged for purposes of fighting obesity and reducing cardiovascular disease. This is yet another indication that the French measure is poorly drafted. The problem is not palm oil *per se* and it must not be targeted.

Swift action required

All stakeholders must counter the proposed measure before it is adopted. The French government, in particular represented by the State Secretary on biodiversity, appears resolved to introduce such a tax. In particular, bilateral discussions with the EU and France must be requested as soon as possible within the WTO framework.

For example, at the meeting of the WTO Committee on Technical Barriers to Trade in Geneva from March 9-10, 2016, Indonesia had raised a Specific Trade Concern on the proposed French measure *vis-à-vis* the EU.

There is a need for palm oil producing countries to engage with the French government, Senate and National Assembly, within all available avenues. They must impress upon legislators that this measure would be discriminatory, not scientifically based, not the least trade restrictive measure available, and a disguised restriction to international trade.

The first objective of any formal (i.e. diplomatic, political, commercial and technical) engagement with France should be to clearly understand the objectives of the measure; the details of the 'special tax'; and the impact on palm oil *vis-à-vis* competing 'like products'.

France must scientifically explain the environmental criteria for exemption from the special tax, together with the related certification mechanisms. It should also provide enough time for the affected WTO members to review the measure and convey their comments and alternative solutions. As it stands, France appears to be falling short of these requirements under WTO law.

FratiniVergano
European Lawyers

Poser for Belgium

Can it do really without palm oil?

Belgium has a lot to offer – for one, its pastries and chocolates are famous in Europe and beyond. Many of these made with palm oil.

Its economy, however, can rely on few own natural resources. It therefore imports substantial quantities of raw materials and exports a large volume of manufactured goods.

This also leaves Belgium vulnerable to volatility in world markets. It wrestles with a budget deficit that hovers around 100% of GDP.

High labour costs that impact its international competitiveness, an ageing population and rising social expenditures are further challenges.

In 2014, Belgium produced almost 600,000 tonnes of rapeseed oil and 117,000 tonnes of linseed oil. Given its sizable food and general processing industries, it imported 1.8 million tonnes of oils and fats, mainly rapeseed oil, palm oil, sunflower oil and soybean oil.

Almost all of the imported palm oil came via the Netherlands or directly from Indonesia, Malaysia and Papua New Guinea. Belgium's consumption of palm oil remained relatively high, albeit with year-on-year fluctuations (Figure 1). This was in spite of the anti-palm oil campaign waged. Demand for palm kernel oil and palm kernel meal was generally stable.

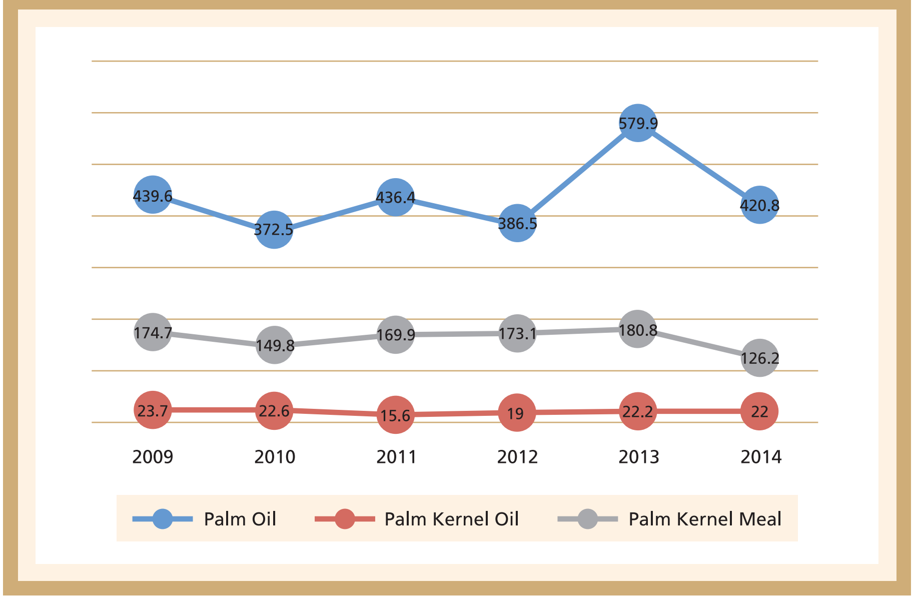
Distorted policy

The biggest challenge palm oil faces in Belgium is an elaborate 'No palm oil' campaign built on unjustified environmental and health claims:

- It is alleged that the expansion of oil palm cultivation results in the destruction of tropical rainforests – the habitat of animals like the endangered *orang utan* – and that it releases greenhouse gases into the atmosphere.

- In terms of health, the lobby has wrongly linked palm oil with coronary heart disease. Most scientists now agree that saturated fatty acids have a place in a healthy diet. What are harmful are trans fats – which are not found in palm oil.

Figure 1: Belgium – palm oil imports by product (thousand tonnes)



Sources: Oil World Annual 2014 & 2015

Many food producers have reacted to such sentiments by sticking a label on products, stating that these do not contain palm oil. This campaign has variously led to calls for legislative action, imposition of punitive taxes, and even a ban on palm oil. But all these were withdrawn once their initiators familiarised themselves with the facts.

A telling example is that of the French Environment Minister Ségolène Royal who, in mid-2015, called for a boycott of Europe's favourite chocolate-spread because it contains palm oil.

Leading NGOs like Greenpeace and the WWF rose to the defence of palm oil and forced her to back-pedal.

They have come to understand that the characteristics of production, and comparisons with other vegetable oils, make a green case for palm oil. For instance, the oil palm yield per hectare is higher than that of other oil crops, while the sector's use of agrochemicals is lower.

It seems that some policy makers are not aware of these facts. The Belgian authorities, as well as producers and retail chains, would be well advised to rethink their policy on palm oil – for it is inevitable that consumers will find out that they are being seriously misled.

MPOC

Best Response to Attacks

What works, what doesn't

Probably the most common branding problem that people in the edible oils and fats business feel troubled about is the question of how to respond to attacks. This is especially so when the attacks seem unfair, whether levelled by governments or NGOs.

And when this happens, what is the best response? More specifically, what are the best strategies and detailed approaches for protecting your brand and building a positive reputation?

These are not new problems. And their solution doesn't necessarily need to be new either. Yet, there is a general trend to be more excited about new ways – rather than old ways – of fixing problems. For much of the time, this bias presents no particular problems – but too much of it can cause us to miss out on better solutions which might have been around for a very long time.

Many of the problems facing the branding of the edible oils and fats industry are old problems. The issues have to do with:

- Trust
- Building a reputation
- Explaining why unfair criticism is unfair
- Handling attacks by opponents
- Knowing your opponents' strategies, knowledge and motivations
- Separating the truth from the non-truth (whether there are issues to do with accidental miscommunication or deliberate lies)
- Understanding the role of biases and vested interests

All of these are almost identical to the issues faced by leaders in ancient times. So, to a surprising degree, looking backwards can be highly useful in order to do a better job of moving forward.

In Rome, for example, there was the frequent issue of handling unfair attacks, be it criticism or outright abuse. Tacitus (AD 56 to 117) was one of Rome's more famous Senators, as well as a notable historian. He came up with this advice: "Abuse, if you slight it, will gradually die away; but if you show yourself irritated, you will be thought to have deserved it."

Likely audience reaction

Does Tacitus' advice apply today? I would say so because, when people go against it (as many organisations still do), they find that the results are often the opposite of what they had intended. Sometimes responding aggressively, with a lot of noise can give both the attack and the attacker a visibility and a credibility that they otherwise would not have enjoyed.

Yet many managers think that when someone attacks, a response – whether it is abusive or factual – is expected. This seems to be a straightforward matter. After all, when you respond, you are either right or you are wrong. Facts either support you or they don't.

But things are rarely that simple. As human beings, we often don't take things at face value. If somebody says 'x' to rebut an attack, the response from listeners is rarely 'Ok, well, x it is'. They are more likely to think:

- Ah well, he would say 'x' wouldn't he?
- What's his motivation to defend himself?
- What is he hoping we will think?
- What's he trying to hide?
- Who's paying him to say it is 'x'?
- Oh, he seems angry now. That is definitely a sign of guilt.

Strangely enough, people view the degree of intensity of your response as a key indicator of how legitimate the attack was in the first place. It is much less work for them than analysing all the pros and cons of an issue and checking through piles of data. In other words, with these kinds of battles, logic won't save you, and neither will fairness.

Audiences are often confused (which is understandable given the vast volume of information coming at them these days), as well as suspicious (which is also understandable given the number of organisational leaders who have lied over the years). Consequently, it is difficult to predict which way they will lean. This is a process that many find frustrating.

Range of responses

A highly problematic response to an attack is the phrase 'no comment'. If a reporter asks a politician: "Did you have that extra-marital affair?" and the response is "No comment", it is generally taken as "Yes, I did, and now please just go away and leave me alone".

This is because many people generally like to read complex meanings into simple statements. A widely held response to 'no comment' would be: 'If he were innocent, he would have come out with a straight denial, right?'

How would an emphatic denial work out? One example is: "I did not have sexual relations with that woman." That's short and emphatic, and a pointed finger adds even more emphasis.
Well, unfortunately, that response, or anything that comes close to it, will remind an audience of former US President Bill Clinton's guilt every time. It didn't work for him then; and because of the mess he landed in, it's less likely to work for anyone else now.

The whole business of determining the right response becomes very complicated very quickly. To a surprising extent the paradoxical rule 'less is more' (Tacitus again) often kicks in. By that I mean less effort and energy can have a bigger impact on an audience.

To illustrate this point, I'll construct a ridiculous scenario. Imagine a member of the public shouting from a street-corner that a group of little green men from Mars have landed in a UFO and are living in a secret underground location with the assistance of the government.

Next, let's take, for the sake of argument, two extremes in the range of responses from the government:

- Silence (or close to it); or

- A big response, with a room full of senior officials at a big press conference. The president loudly says: "There are no little green men, there never have been any little green men, and we don't have an underground bunker for them. There is, and never has been a UFO. And (*raising his voice*) I can't make this point any clearer than that."

In the first case, as Tacitus would say, interest would fade. But in the second instance, people would become fascinated by the spectacle of the big response. In fact, the bigger the response, the greater the credibility the accusation will be given.

So when has a response worked? There aren't all that many great examples, but the case of British Liberal politician Paddy Ashdown provides one. On Feb 6, 1992 a story broke in *The Sun* newspaper of his affair with his secretary Patricia Howard. The headline read: 'It's Paddy Pantsdown', which went down in journalistic history as one of the funniest and memorable headlines ever. It was neat attack.

Ashdown managed an equally effective counter with words along the lines of: 'I won't comment on it. It is a family matter for me and my wife to sort out.' What happened next? Absolutely nothing (and that's the main point). Media interest simply faded away.

Ashdown's 'I won't comment on it' was taken as: 'I am commenting on it. I did it. Hey come on guys, none of us are perfect, so now leave me alone. I won't lie. I won't get loud and angry. I won't play the game you want me to play.'

Never underestimate the potency of using an unusual angle of attack; and if it is combined with a bit of humour, then better still.

Learning from Sun Tzu

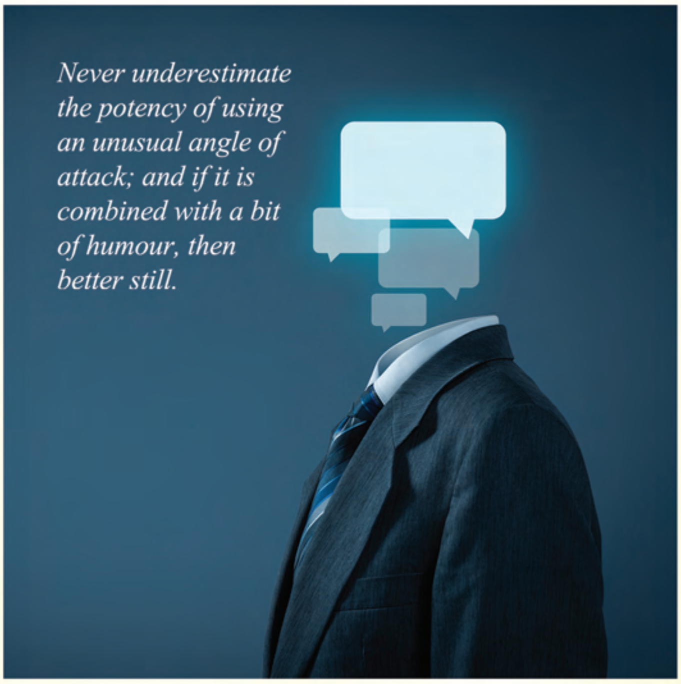
Changing geographical zone, and going back further in time than Tacitus, more examples of ancient strategies are found in Sun Tzu's classic text, *The Art of War*. I have never stopped marvelling at how much of defending your brand and its reputation can be found in these quotes:

1. If fighting will not result in victory, you must not fight.

2. If you know your enemy and know yourself, you need not fear the result of a hundred battles.

3. If your enemy is of a choleric temper, seek to irritate him.

The third one is particularly applicable to the Ashdown story. He also got it right from the point of view of the first quote – he chose not to fight. And keeping in line with Tacitus, he avoided



silence but he did "slight it" with a minimal response. The result worked out just fine for him.

The second quote covers one of the most basic mistakes that organisations and leaders regularly make: not knowing their audience. A key question in branding is: who is your audience? And that's closely followed by the question: what kind of things work on them?

The third quote is one that's often missed by many managers in the branding world. If you can get your opponent irritated, and thereby more emotional and upset, you can cause more damage than with a direct attack. In the military context, direct attacks cost a lot more in terms of men and ammunition than simply annoying your enemy, and the world of branding has its equivalents.

An opponent who is irritated and annoyed is far more likely to make a mistake than one who is thinking clearly and rationally. So, if you find yourself annoyed by an opponent, the first question is: to what degree am I playing into their hands?

A useful test is to analyse your past 10 or so responses to attacks:

- Were they fact-based? Or did you get emotional and irritated – hence, malleable?

- Were they similar? If so, are you getting predictable? (Predictability is the last thing you want in any battle.)

Far better than getting angry is to have a methodical intelligence-gathering procedure by following your critics and finding out the patterns in their approaches.

Fortunately, as many of the traits are universal, you can get a lot of useful information from other attack-defence scenarios. I'd recommend watching debates that take place before a 'live' audience. Notice what works on you, especially if it is an opposing view to yours, and what works on the audience.

Certain things will keep happening, and they are all pivotal in successful branding.

1. Don't rely on what you think is logical; other people might have a different view on what 'logic' is.

2. Rationality will not save you; people are more often more emotional and less rational than they think they are.

3. Don't rely too much on facts; not everyone agrees on what 'facts' are.

4. If you do use facts, make sure you are quoting what everyone accepts; best of all, use facts that your opponent has quoted, in order to support your argument.

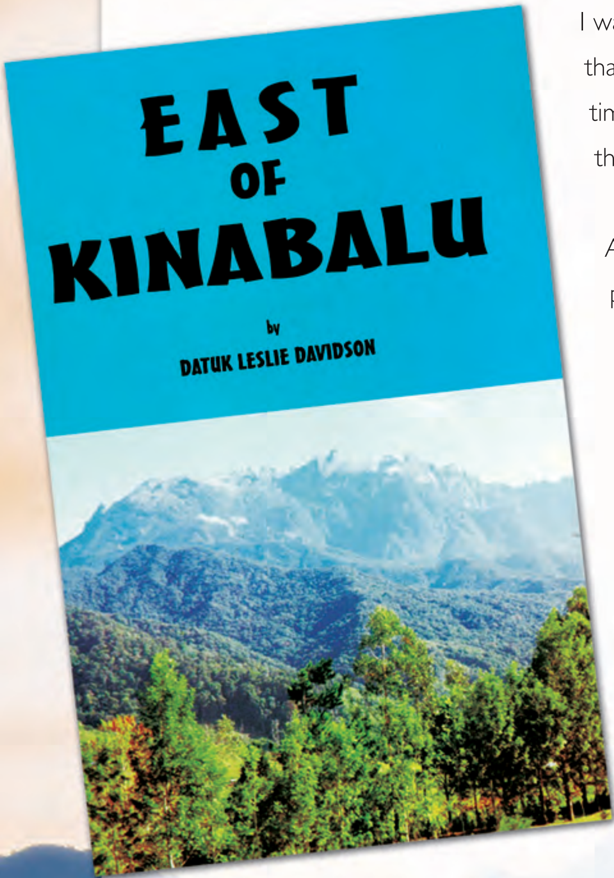
5. Delivery beats content frequently. So pay attention to symbolism, phraseology, timing and humour.

6. Don't plead or bleat (phrases like 'it's not fair' can easily come across as a mixture of being both weak and unimaginative). Far better to state indisputable facts and let the audience draw their own conclusions as to value judgments.

Dr Ian Halsall
Author & Researcher

The Swiss Family Robinson

Smashed quarters



I was sitting in the office, struggling through the monthly report. Now that the family had arrived, I usually made an effort to get home in time to have afternoon tea with them. Today however, I was a bit later than usual.

A strong breeze started to come in from the river, causing the papers on my desk to blow around. There was obviously a squall coming up. I did not think much about it. My secretary rushed round closing up the windows. The two bullmastiff puppies, Jonah and Alex, barked excitedly and ran round the office at his heels.

Suddenly, however, the wind intensified with a howl to reach gale force, and the office started to shake violently. Looking down through the grove of jungle trees between the office and my house. I could just see a corner of our roof. A gale like this could blow the attap thatch around, and the children might be frightened. I had better get back.

Just as I was thinking this, one of the huge trees which we had left standing around the house, started to fall. As I watched horrified, it came down with a resounding crash, smashing through the roof of our house and hiding it completely in its branches.

My God, the family! With the two puppies at my heels I sprinted through the copse, with branches falling around me.

The tree had smashed diagonally across the house, from the rear, through the cook's quarters, the kitchen and the dining room beyond it. I leapt up the front steps. The sitting room was full of branches and debris. I could see none of the family. Tearing at the branches, I fought my way through to the bedroom wing. To my great relief, it was unscathed.

From the bathroom beyond, I heard Olive's voice. I ran through and wrenched the door open. Olive was bathing the two girls, who were splashing noisily in the sunken bath.

"What in heaven's name was that noise?" Olive asked. "What has that dammed cook been smashing now?"

The cook? I rushed back, only to meet a very irate Chinese cook, standing among the fallen branches in what was left of the dining room. His bedroom had been smashed to the ground under the huge six-foot diameter trunk

"OK, Tuan Devsen," he greeted me. "I finish here. Please, I go back Sandakan tomorrow."

He was a lucky man. Apparently he had been busy at the front of the house when the tree fell. Had he been in his room or in the kitchen, he would certainly not have had to worry about giving notice, or about anything else, ever again.

"Please try to find the cooker under all this, and make us some tea." I said.

Catriona and Fiona thought it was all marvellous fun. I took a cine picture of the family sitting on branches in what remained of our dining room, with Olive pouring our afternoon tea. It really was a page out of *The Swiss Family Robinson!*

Social rounds

Olive and the girls had disembarked in Singapore after an enjoyable three-week voyage from Southampton. The two large bullmastiff puppies, which I had suggested they should bring out with them, had apparently been a great hit with the ship's crew.

In Singapore they transferred to the *MV Kimanis* for the onward trip to Borneo. They were accompanied from Southampton by our accountant's wife, Jean Wyngarten, and Johnny junior, her 12-year-old son. Now that our accountant had less to do in Sandakan, I had asked him to move permanently up to the estate, and he now lived in the hut 50 yards downstream from the Rest House.

I was waiting for the family on the pier at Jesselton when the *Kimanis* arrived. Fiona had been little more than a babe in arms when I left; and now after eight months, here she was, trotting down the gangway in a little print dress, hand-in-hand with Catriona, who was now five and a half.

We had a whirlwind tour of the capital, introducing Olive to Eunice Kennedy, Peggy Guy and other ladies of the Jesselton establishment. I joined them on the *Kimanis* for the remainder of the trip, round the coast to Sandakan. Even when I was in Africa we had not had too much time together as a family, and it was marvellous to be reunited after so long.

When the ship stopped at Kunak, we met my friend Datu Mustapha, now in his last few months as District Officer before moving on to higher things in Jesselton. He was very impressed when told that Olive and the girls were going to stay in the jungle.

He very kindly gave Catriona a present of a small pony, which was duly loaded on the ship for forward transmission, along with the two dogs. He promised to visit us at Tungud before too long.

On disembarking in Sandakan, we stayed for a few days at our new flat. This gave Olive and the girls a chance to make friends with some of the Sandakan families.

Moray Graham, in the meantime, arranged for the animals to be taken up to the estate ahead of us. Our menagerie now also included a couple of very aggressive geese in the garden. We were assured that geese were the best protection against snakes.

Maiden voyage

I had been racing to put the finishing touches to our new launch, the *Puyoh*, before the family arrived. From now on, speed-boats, even the catamaran, were strictly for river travel, or for a fast passage to the Gum in the flattest of flat calms. I was not going to take any risks with the family, after my experience in the *Pekaka*.

The *Puyoh* was a sea-going kumpit. It had been built for us at the boatyard on the island of Libaran. The hull was a traditional local design which was absolutely seaworthy, and we had it fitted with a big, reliable diesel inboard engine.

Lai had now left his position on the *Mantanani*, and we appointed him as our sarang. During the building of the *Puyoh*, he stayed at Libaran checking every detail of the construction; ensuring that only the very best quality well-seasoned hardwood was being used; and making suggestions about strengthening a bit here and there.

When the hull was completed to Lai's satisfaction, he had brought it round to Sandakan, where it was fitted out with a cabin, a small galley and a toilet. It was painted a smart blue and white, and it looked to my inexperienced eye like the sort of thing you might expect to see on the Riviera.

The girls could hardly wait to see their new home in the jungle. However, the windows in the superstructure of the *Puyoh's* cabin were not yet fitted. The Sandakan carpenters were being inordinately slow. I decided after a day or two in town, that we could go up to the estate without the windows and let Kong Miew finish them off when we got there.

We set off from the Sandakan yacht club on a beautiful bright morning, with the sun sparkling on the waves. Ibrahim had announced that, in view of our precious cargo, he would accompany us for this first trip. No one knew the coast, from Sandakan to the Labuk River, as well as Ibrahim. Also, having seen the awe in which he was held by the Sulok community, I felt that his presence was the best possible insurance in the event that we encountered any pirates.

For the first few hours of the *Puyoh's* maiden trip, everything went well. The family could not have had a better introduction to the country. We anchored off one of the Turtle Islands for a picnic and a swim, before turning west into Labuk Bay.

As we were passing the Gum estuary, we hit a sharp squall. The ship started to rock around uncomfortably. It was nothing the *Puyoh* could not handle quite easily. However Lai and Ibrahim suggested that, since we had

Olive and the children on board, we should anchor until it passed over. Coincidentally, we anchored in almost the exact spot where Tundah and I had found the huge kumpit anchored on the night of the storm.

The squall brought a rainstorm with it, and since we had no windows in the cabin, the rain poured straight in. Within half an hour we had a few inches of water sloshing around the floor of the cabin. Being at anchor, the *Puyoh* was rolling around a bit. Olive was fortunately an excellent sailor and so it seemed were the two girls. None of them were sick. It was not particularly comfortable, however.

It was lucky that Olive took it all in her stride. In fact she coped well with all the privations we were to encounter in the first few years, and I took this very much for granted. It was not until much later that I learned from friends living in more civilised areas, that some wives might have had considerable problems in coping with life in the jungle – with storms and floods, and pirates, and falling trees, and insects, and snakes in the wardrobes and rats in the toilets.

After an uncomfortable hour or so, the sun came out again to dry everything off, and we were on our way up the bay. As we proceeded up the river, the girls were excited when the proboscis monkeys came out to greet us. We sat on the roof of the *Puyoh* and waved to them.

As usual, we stopped briefly at Lai's hut, which was the only habitation between Beluran and Klagan. His children came running down to the jetty to greet their father and to be introduced one by one to Catriona and Fiona.

Fifteen minutes later we stopped at Klagan and the family met the Chinese shopkeepers and their wives and children. Olive was interested to examine the contents of Tumpeh's shop, since this would be her nearest local shopping centre until we built up the stocks of the shops on the estate. The inspection did not encourage her.

At last, after a nine-hour trip, the *Puyoh* turned the final bend of the river and the family had their first view of their new home, nestling among the tall jungle trees.

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