

World Supply and Demand of Palm Oil with Special Discussion on India Imports

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Outline

- World Palm Oil Production – historical trend and outlook
- World Palm Oil Consumption – historical trend and outlook
- World Palm Oil Price outlook
- Trend of edible oil imports into India – special discussion on palm oil imports.

World Palm Oil Production

Production Trend in the past five years

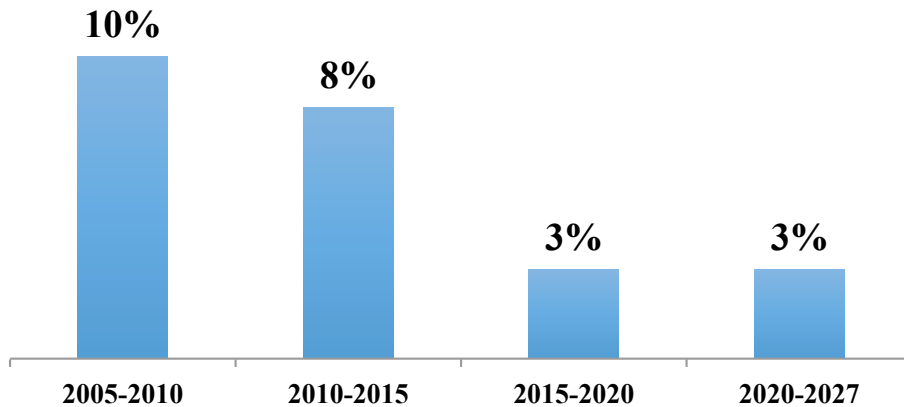
- Indonesia and Malaysia continue to be the major producers of palm oil contributing to about 85% of world palm oil production. The rest 15% of global production come from other countries such as Nigeria, Thailand and Colombia.
- Global palm oil production has expanded at around 4% in the past six years, up from 52.6 MMT in 2011/2012 to 64.25 MMT in 2016/2017 on the back of productivity improvements, favourable climate conditions (except this year), and area expansions especially in newly palm oil producing countries.

World Palm Oil Production

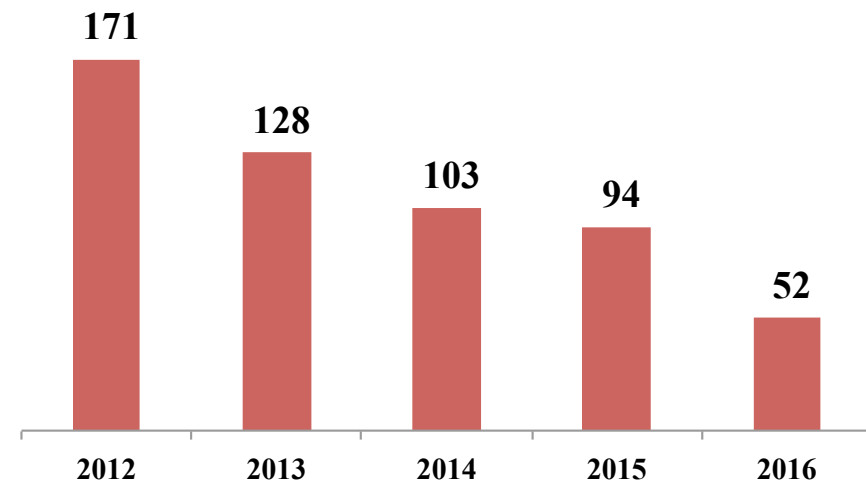
Production Outlook – Indonesia

- Indonesia's palm oil production growth is trending down. The significant growth reduction is envisaged in 2015 – 2020 timeframe. Overall, the production is expected to maintain slow expansion at 3% per year in the next decade.
- Moratorium on the issuance of license to open new plantation, reduced price incentive, extreme weather pattern, productivity gap between smallholders and private plantation, and black campaign that ties with environmental, health and child labor issues will continue impeding production expansion.
- The declining seed sales in the past five years further confirms low production growth prospect in 10 years time.

Indonesia: Average Annual Palm Oil Production Growth



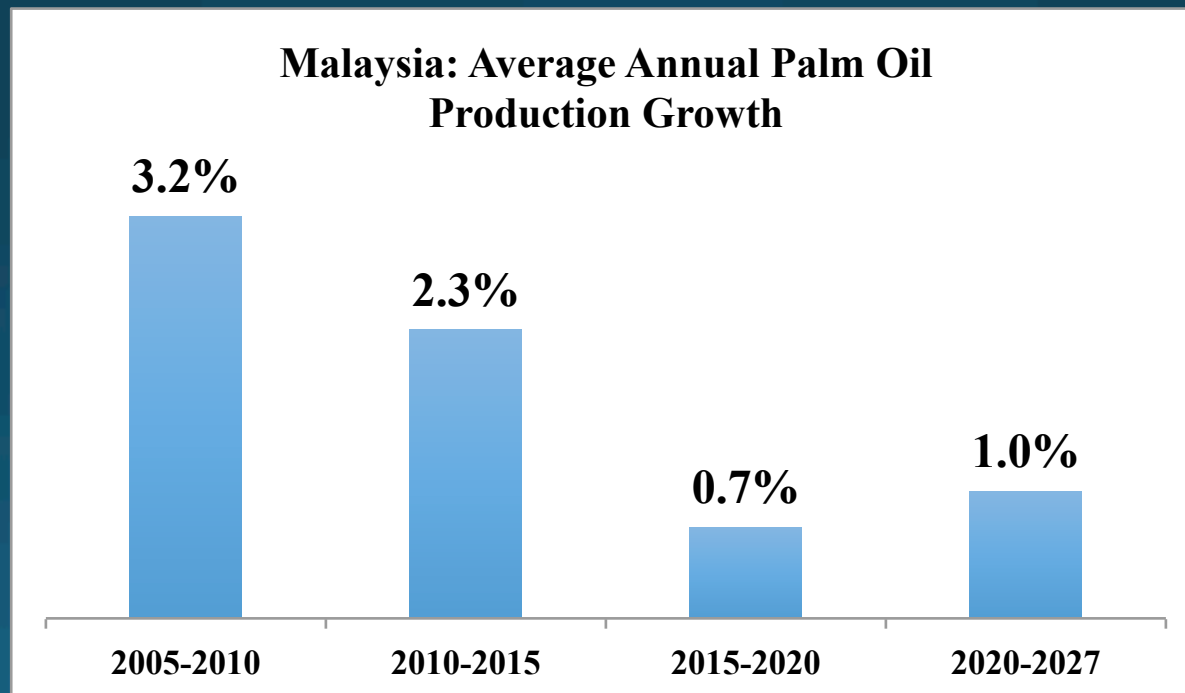
Indonesia: Annual Seed Sales (million seed)



World Palm Oil Production

Production Outlook – Malaysia

- Malaysia's palm oil production expansion is trending down with much slower growth performance compared to that in Indonesia.
- Future production palm oil will be challenged by the various hindrances that include
 - Low replanting rate that result in high portion of old crops and stagnant but tend-to-decline productivity.
 - Labor shortages
 - The land available for the new planting area is very limited and random weather pattern.



Source: USDA

World Palm Oil Production

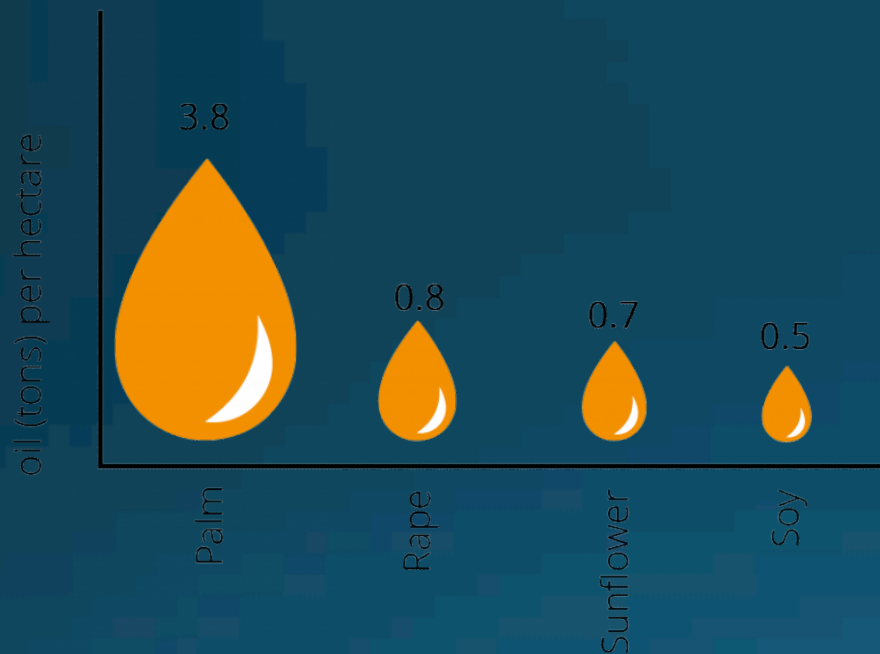
Production Outlook – Other producing countries

- Building on the abundant land supply, other producing countries should be in a good position to compensate for low growth prospect in major palm oil producers, restoring the global supply.
- Foreign direct investment, in terms of capital and technology, will play pivotal role to support production expansion in this new frontier.
- Lack of price incentives, uncertain socio-political condition and high labor cost in Southern America such as Brazil, however, will limit the FDI inflow to these countries in the medium term.
- Drawing on the above-mentioned challenges, palm oil production in other producing countries is projected to grow at 2-3% annually from 9.5 million tons in 2017 to 12.8 million tons in 2027, which is considered insufficient to compensate production slowdown in the two largest producing countries.

Palm Oil vs. Other Vegetable Oils

A highly efficient crop (Oil World 2016)

Highest Yield



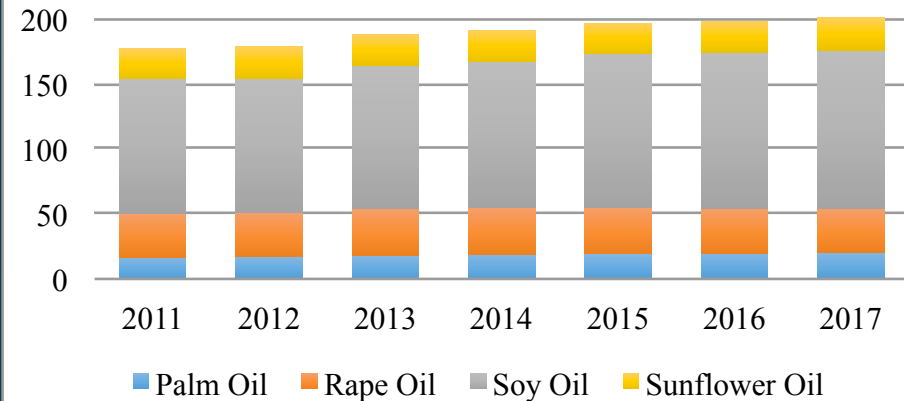
- Palm oil has maintained its price advantage among other major vegetable oils on the back of much higher productivity.
- The oil palm tree is the most efficient oil crop in terms of land use. It has the highest yield compared to other oil crops per hectare of land.

US\$/MT	2015	2016	Jan-17	Feb-17	Mar-17	2017	2018	2019	2020	2025	2030
Palm Oil	623	700	809	774	736	750	761	771	782	839	900
Soybean Oil	757	809	872	835	813	860	870	880	890	944	1,000
Coconut Oil	1,110	1,475	1,815	1,703	1,547	1,600	1,584	1,567	1,551	1,474	1,400
Groundnut Oil	1,337	1,502	1,520	1,545	1,578	1,500	1,515	1,529	1,544	1,620	1,700

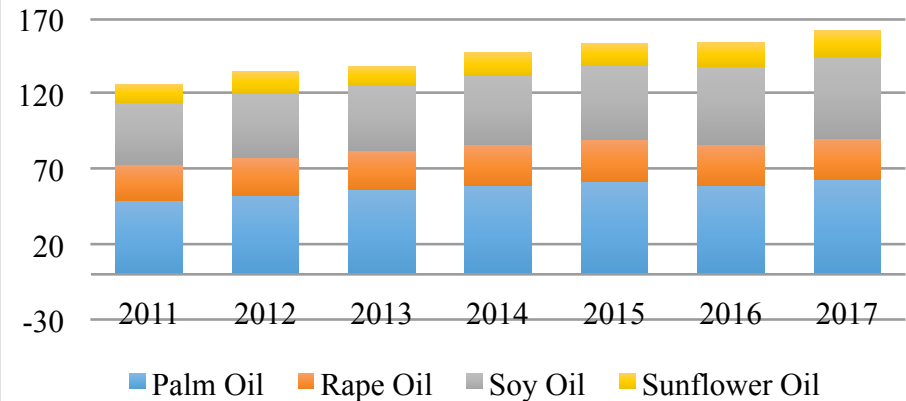
Source: World Bank Commodity Price Outlook

Palm Oil vs. Other Vegetable Oils

**Global Harvest Area of Major Vegetable Oils
(Million Ha)**



**Global Production of Major Vegetable Oils
(Million Ton)**

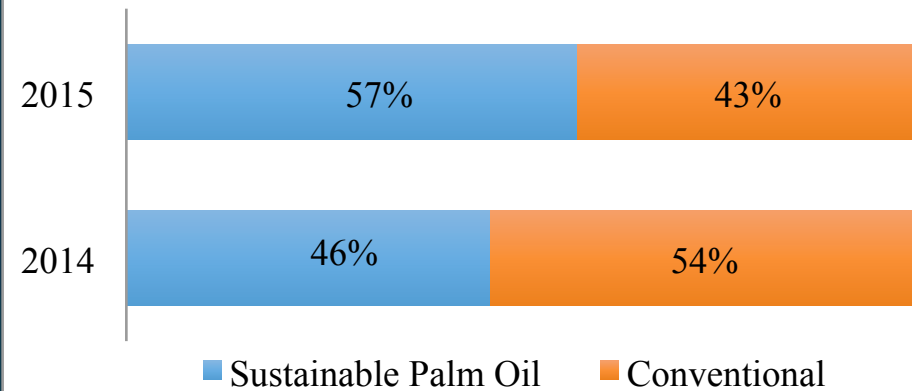


Source: United States Department of Agriculture

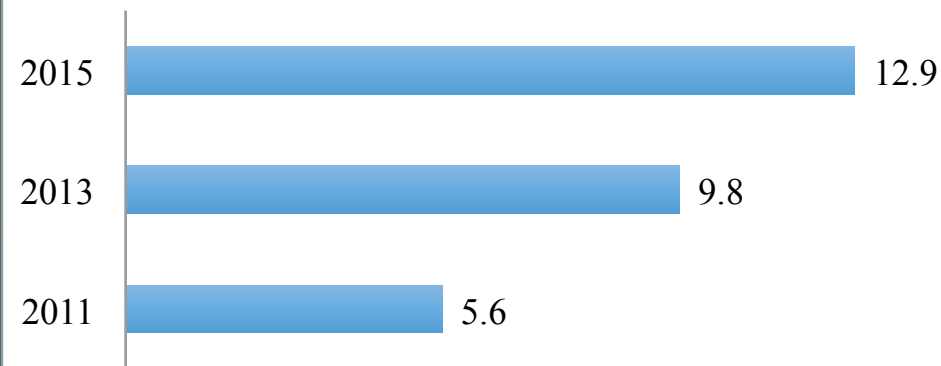
- While expanding rapidly in the past two decades, palm oil's global harvest area is the smallest among four major vegetable oils, accounting for 10% of total harvest area.
- Palm oil production, however, has contributed close to 40% of global supply of four major vegetable oils
- The above-mentioned facts further confirmed the excellent efficiency of palm oil in terms of production, higher than any other vegetable oils.

Palm Oil vs. Other Vegetable Oils

Palm Oil Supply to Europe



Sustainable Palm Oil Production (Million Ton)



Source: European Palm Oil Alliance

- Similar to other vegetable oils, producers of palm oil are strongly committed to sustainable production.
- Total production of sustainable palm oil has been consistently on the uptrend since 2011, increased from 5.6 million MT in 2011 to more than double at close to 13 million MT in 2015.
- Sustainable palm oil supply enjoyed larger share in European market from 46% of total supply in 2014 to 57% of total supply in 2015.

World Palm Oil Consumption

Consumption trend in the past five years

- World consumption of palm oil has expanded at annual growth of 5.3% within 2011/2012-2016/2017 timeframe on the back of growing population and income, increasing fuel use and price competitiveness.
- India, Indonesia and EU are the major consuming countries followed by China and Malaysia. Indonesia is not only the world largest palm oil producers, but it will also become the largest consumer thanks to B-20 mandatory program.
- China will experience flat consumption growth due to moderation in GDP growth. Despite various negative campaigns against palm oil, EU remains the stable export market.

World Palm Oil Consumption

Consumption outlook 2017-2027

- Growing fuel use, population growth especially in developing countries, emerging demand from new importing countries such as Pakistan, Iran and Bangladesh will become the positive factors to positive palm oil consumption growth. At the other side, China's economic growth moderation and a more intense negative campaigns against palm oil could slow the consumption pace.
- Building on such mixed factors, palm oil consumption is predicted to expand at slower pace than that in the past five years. LMC International predicts global palm oil demand to grow by 3.1% per annum within 2015-2025 timeframe.

World Palm Oil Consumption

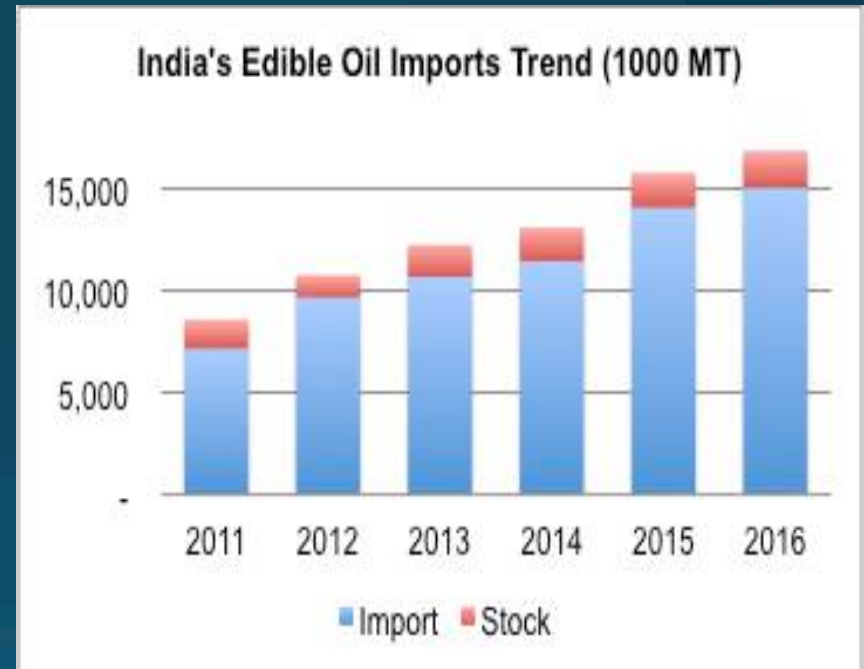
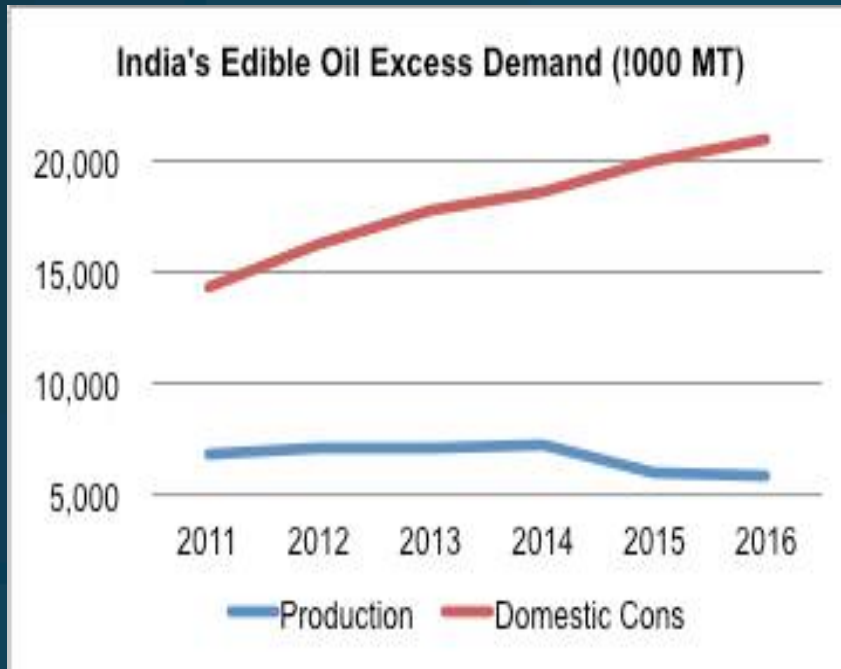
Key Factors to watch

1. The recent EU parliament resolution: we believe there is low likelihood of a complete halt on palm oil exports to EU for the following reasons
 - The resolution, as it stands, is non-binding.
 - Exporting countries have produced more than 15 MMT of certified sustainable palm oil, more than enough to satisfy the EU market. Continues flow of palm oil to the region, therefore, is possible.
 - Such negative campaigns have been in place for years, but palm oil exports to EU is on the uptrend in the past 6 years from 3.5 MMT in 2011 to 4.4 MMT in 2016. This may suggest the genuine demand from the EU customers outweigh the negative news on palm oil.
2. The possible US anti-dumping duties on palm oil biodiesel. This will take time to materialize since the US department of commerce need to review the proposal and exporting countries will bring this issue to WTO. furthermore, Indonesia is the 8th largest market for US agricultural products, they need to maintain good bilateral trade relationship with Indonesia.
3. India may continue the imposition of safeguard duty on fatty acid and fatty alcohol.

World Palm Oil Price

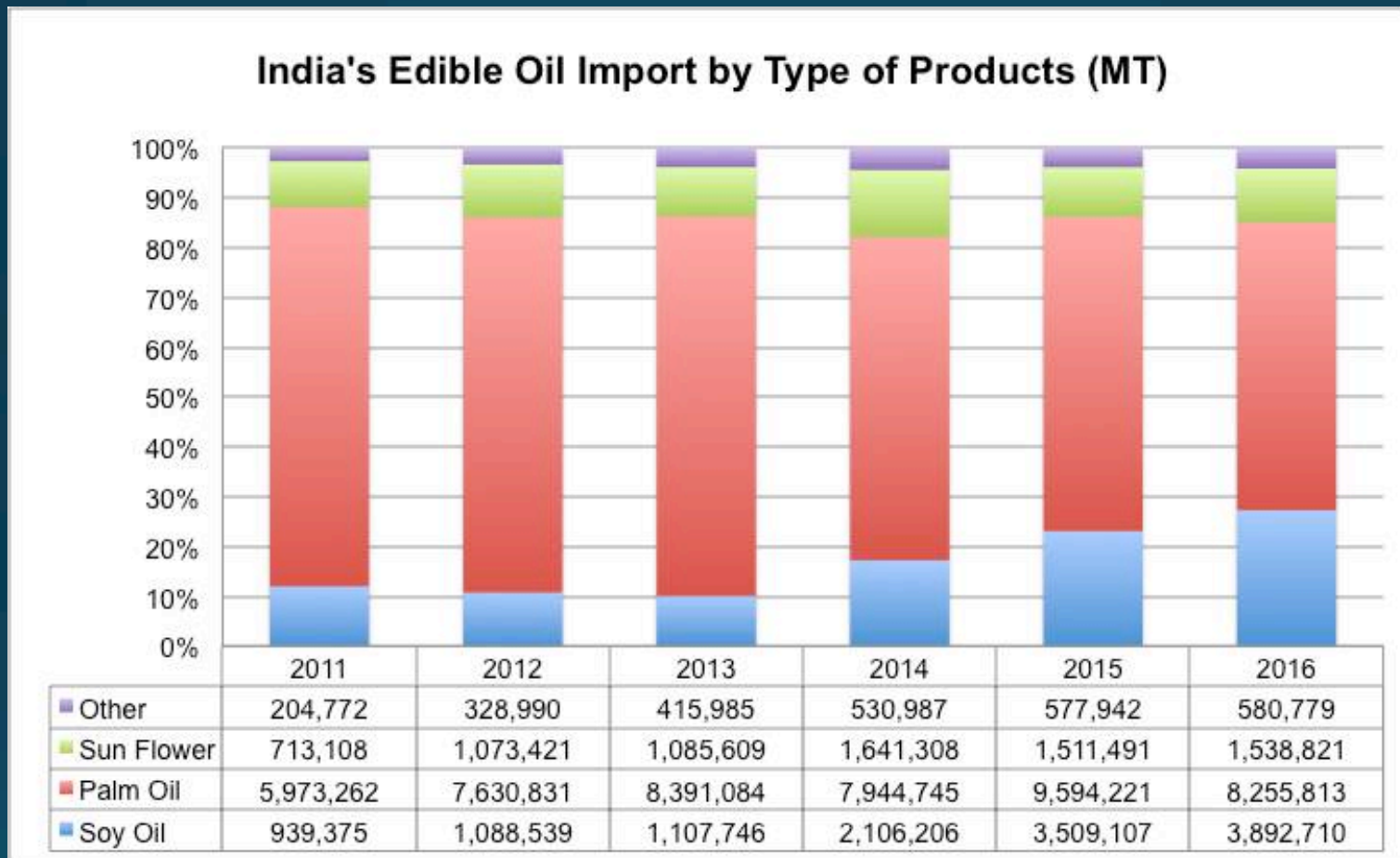
- The projection of palm oil production and demand indicates the presence of an excess demand over the forecasting period, suggesting the palm oil price uptrend is envisaged within 2017-2027 timeframe.
- Despite the prospect for price rally is remote, crude oil prices are also expected to stay firm in a decade to come, providing incentives for stable-to-gradual increase of CPO prices.
- The latest World Bank's Commodity Markets Outlook, published in April 2017, confirms the moderate increase (an annual growth of 1.4%) in palm oil prices from US\$750/MT in 2017 to US\$900/MT in 2027. This is a stronger outlook compared to previous forecast made in January 2017.

India's Palm Oil Import Trend



- Domestic production is yet to catch up domestic edible oil consumption. The supply-demand gap has even been larger since 2014 due to declining local edible oil production.
- Consequently, India's edible oil imports has been on the uptrend in the past 6 years.

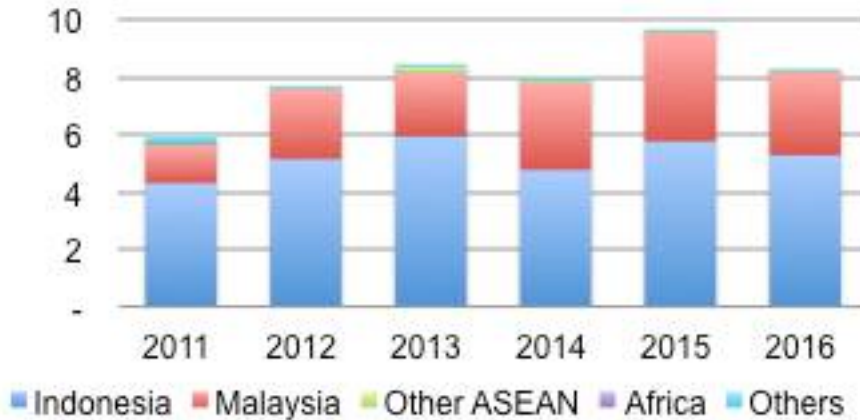
India's Palm Oil Import Trend – Continued



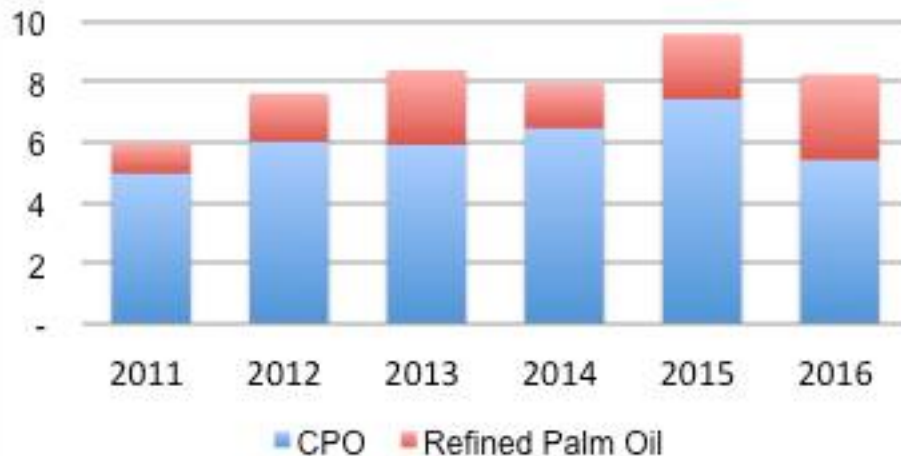
- Palm oil accounts for nearly 80% of total India's edible oil imports on the back of cheaper prices compared to other edible oils, abundant supply and closer distance to source of imports which is Indonesia and Malaysia.

India's Palm Oil Import Trend – Continued

India Edible Oil Import by Origin Country



India Palm Oil Import by Product (Mio MT)



- Indonesia has become the largest palm oil suppliers to Indian market, followed by Malaysia in the second place.
- Those two countries supply most of palm oil imported by Indian consumers.
- Indian palm oil refiners are the major palm oil importer from Indonesia, resulting in larger import of CPO.
- The recent increase in refined palm oil imports indicates Indian edible oil sellers are finding the foreign supply of RPO has better price competitiveness compared to locally-produced RPO.

Conclusion

- Growth of palm oil production shows the declining trend in the next ten years comparing in the historical trend of the past ten years especially in the two largest producing countries; Indonesia and Malaysia.
- In the meantime demand for palm oil is predicted to expand at slower rate than that in the past five years due to factors of China economic growth moderation and more intense negative campaign.
- However, demand for palm oil is projected to be higher in its supply suggesting the palm oil price uptrends within the 2017-2027 time frame.
- India's edible oil imports will continue to increase due to the declining trend in its domestic edible oil production.
- Palm oil accounts for nearly 80% of total India's imports and Indonesia is the largest supplier for Indian markets.