

REVIEW OF THE EDIBLE OIL INDUSTRY AND THE GROWING INFLUENCE OF PALM.

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A. Market Review

We meet here at this conference carrying the theme **“Sustainable growth”** and what an appropriate subject it is, given the historic volatility that we have experienced in the world of Commerce, Energy and Commodities, in the past year.

Exactly to the month, a year ago, we witnessed the start of what turned out to be a “long awaited and dream bull market”. The dollar tumbled against all currencies, oilseeds and grain production dropped sharply due to weather vagaries, geo-political unrests propelled energy prices higher, and the world economies, primarily led by China, steamed ahead and raised levels of consumption to unprecedented levels.

The fundamentals in the world of “Oils and Fats” changed overnight, from one of “abundant supply” to “acute shortage”- based on supply/demand projection. Questions were being asked as to whether we, over the last 2 to 3 decades, had neglected to ensure the sustained growth of the “Raw Material” at the expense of Brand development and promotion, thereby leading to a long term supply shortage. Six months ago, this seemed to be an everlasting black mark in the report card of the **“Path to growth”** that the world had charted and grown accustomed to.

Suddenly the prospect of running out of Soybeans, of the Palm Oil inventory falling below base stock levels in both Malaysia and Indonesia, Inventory with Consumers being whittled down to days instead of weeks, lent credence to the consequences we need to face due to the neglect of the land resources. The only question was- **“Is it a longstanding issue, in terms of rectifying the fundamentals, or “Was it merely a reflection of the short term imbalance in the supply/demand equation”.**

Six months hence, (a long time in the world of commodities), we have experienced one of the most vicious bear markets in history. Vicious, I say, because the impact reverberated across most of the commodity portfolios on a global scale. The casualty net had been cast “far and wide”.

China, which was probably the main catalyst to fuel the Bull Run in “Oils and Fats” and other commodities, also became the principal villain in ruining the much relished “Bull run”. Oilseeds and Soft Oils, whose major suppliers were, Multinationals in Europe and The Americas, became casualties of China’s “boom/bust” appetite.

Defaults, Contract cancellations, delay in unloading ships, have chalked up hundreds of millions of dollars in claims, which may never get resolved. More importantly China’s cut back in purchases turned the fundamentals 180 degrees. Suddenly deficits vanished and surpluses appeared. Fortunately palm oil players and their dealings were spared the agony. The industry escaped relatively unscathed, albeit faced with the reality of much lower prices for their produce, once again.....

As we meet today, prices are ruling within the long term range, supply concerns have evaporated (in fact, the world has started to worry again about burdensome stocks) and the thrust to seek out new markets and expand existing ones have become a priority.

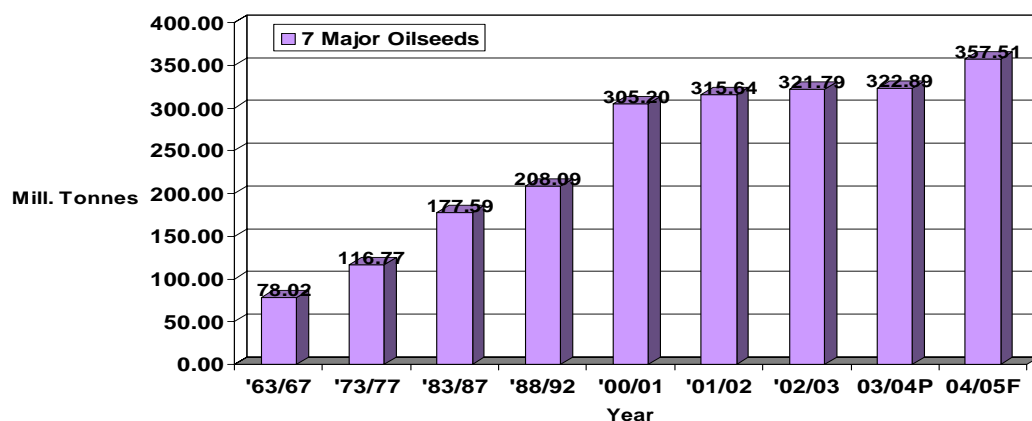
The incident of the “past year” is more “a reflection of the times”, rather than a long standing impact, due to neglect of the resources.

B. Current Scenario

Based on the following sequence of charts, we can infer the following:

- Seed production has trebled in the last 4 decades, partly due to a) doubling of land area employed and b) Improved yield ratio of crops.

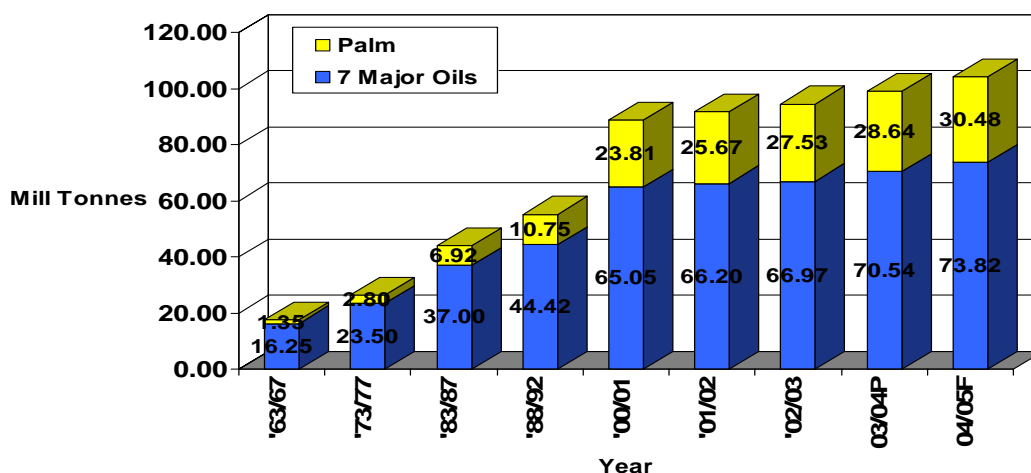
World Production of 7 Major Oilseeds



Source : Oil World

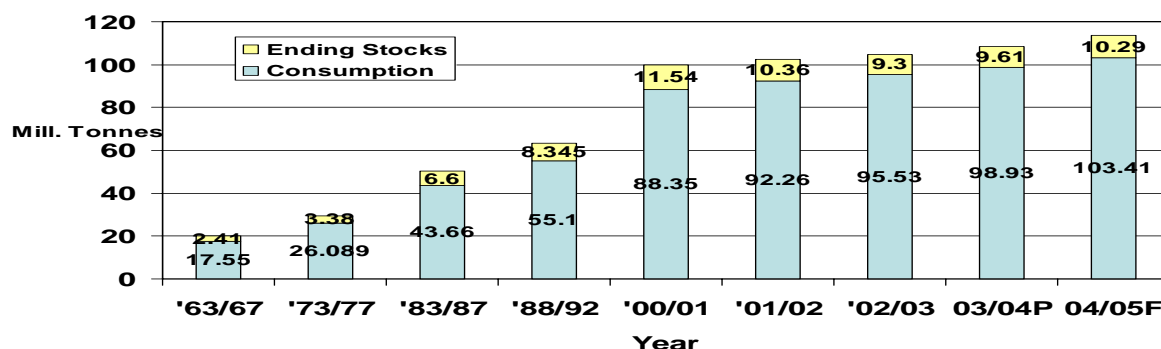
- Oil production has kept pace with consumption through increase in Harvested acreage of oilseeds, improved yield and oil content of seeds and most importantly due to the contribution from Oil Palm. Palm Oil share of the total “Oils and Fats” complex has increased from 7.67% in the mid sixties to 29.25% at present.

World Production of 8 Major Oils



Source : Oil World

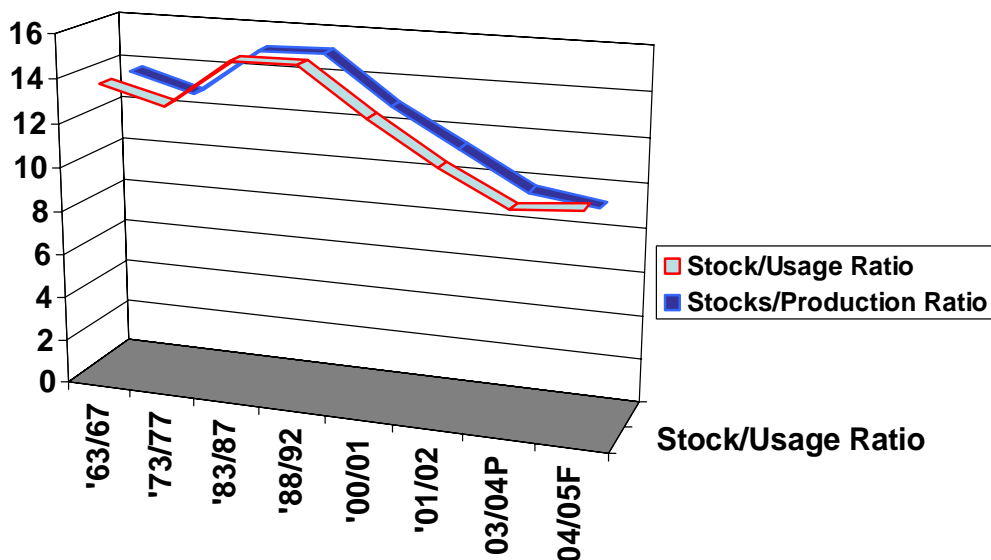
Consumption of 8 Major Oils and Ending Stocks



Source : Oil World

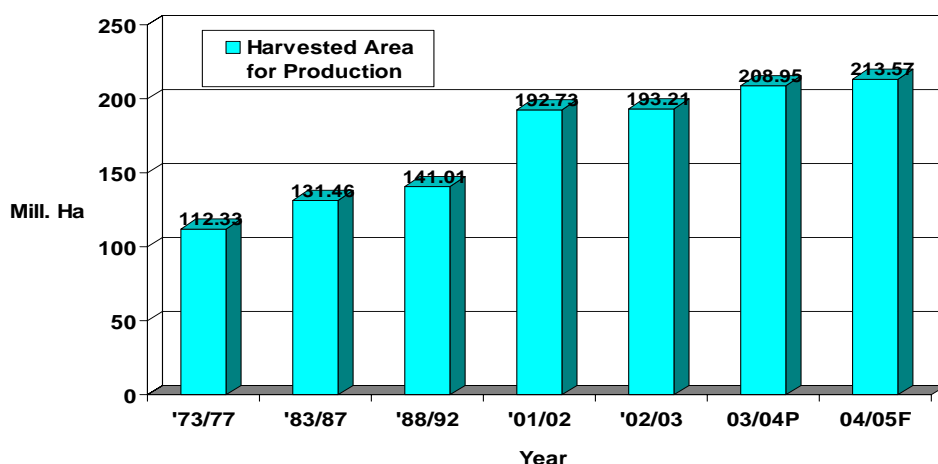
- “Rate of growth” of production and consumption have been proportionate, which has ensured a price structure that has absorbed –a) Increase in productivity, b) lowered cost and c) yielded a sustainable margin (long term average) in “seed to oil” production.
- “Stock to Production” and “Stock to Usage” ratio have shown a similar trend over the last 4 decades. Marginal reduction in stock ratios during the 90’s and current years is a reflection of better inventory management at origin and consumption, which has been facilitated by better logistics.

Stocks Ratio Of 8 Major Oils



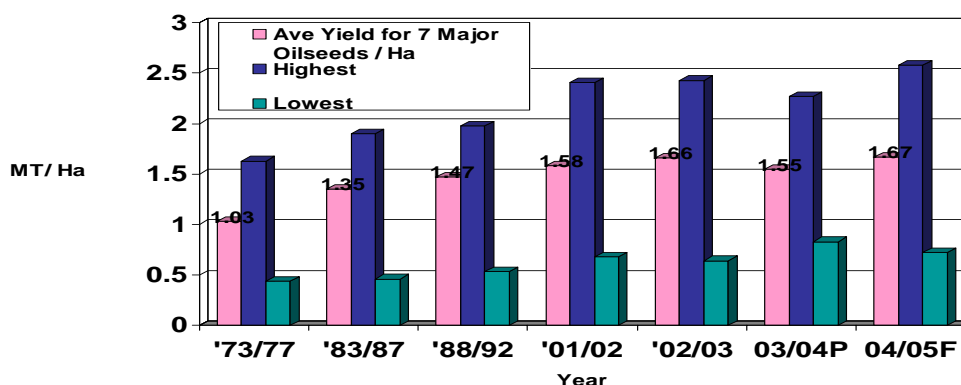
Source : Oil World

Total Harvested Area for Production of 7 Major Oilseeds



Source : Oil World

Average Yield for 7 Major Oilseeds



Source : Oil World

- The potential for further increase in oil output from oilseeds cultivated areas is quite huge. Geographically the yield/Ha output of some of the largest cultivated areas is much lower than world averages. **The world average of oilseed output is 1.67mts/Ha, yet the most productive areas record 2.5mts/Ha and the least productive areas 0.72mts/Ha.**
- Countries like China and India are Net importers of edible oils. **30% of the total world hectares employed for the cultivation is in China and India. Yet their productivity per Hectare is 50% that of Brazil, U.S and Argentina and 30% below the world average.**

Is this glaring deficiency, an integral part of “sustainable management of growth” in the industry?

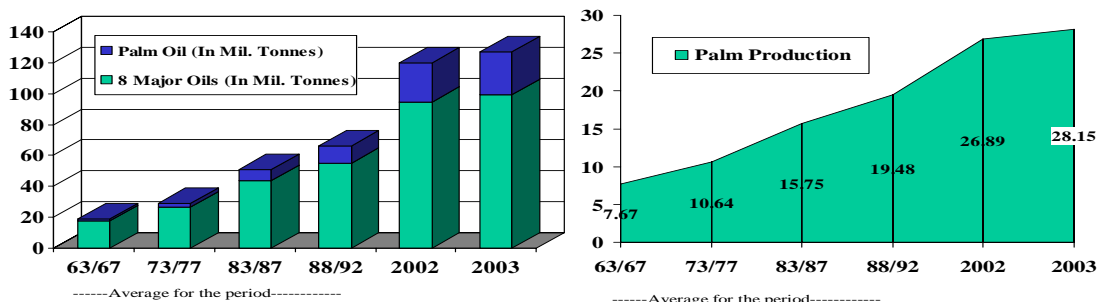
If oilseed production in China and India are pegged to the current world average of 1.67mts/Ha, **world production of oilseed and oils would increase by 23 million tonnes and 5 million tonnes respectively.** Needless to say the impact this surplus will have on the prices today. On the other end of the spectrum, **if**

the average consumption of these two countries were pegged to world averages, the world would require an additional 7 million tonnes of oil. Again an impractical scenario based on current world supplies

These imperfect areas of productivity and consumption are probably the balancing pillars in the “supply demand” economics of edible oils.

C. The Role of Palm and Future Prospects

Production Share of Palm Oil vs 8 Major Oils (in MT and %)

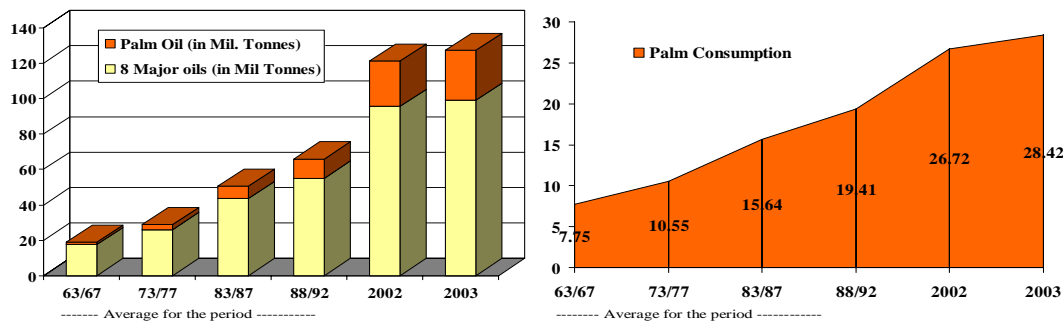


Comparison of Production Share of Palm Oil vs 8 Major Oils (in MT)

Comparison of Production Share of Palm Oil vs 8 Major Oils (in %)

Source : Oil World

Consumption Share of Palm Oil vs 8 Major Oils (in MT and %)



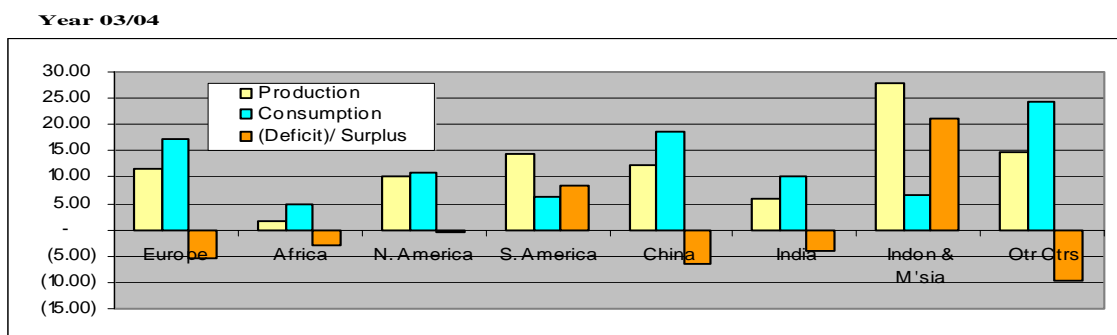
Comparison of Consumption Share of Palm Oil vs 8 Major Oils (in MT)

Comparison of Consumption Share of Palm Oil vs 8 Major Oils (in %)

Source : Oil World

From the charts, it is evident that the “rate of growth” of production of the 8 major oils is proportionate to that of consumption, on a global scale. However what is striking is the contribution of Oil Palm or Palm Oil, in maintaining the supply/demand equilibrium in oils and fats.

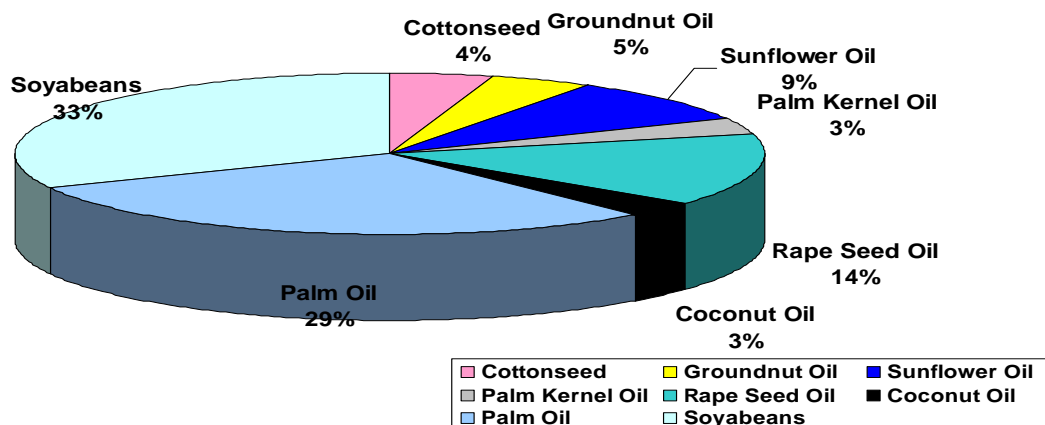
World Production/ Consumption & Balance of 8 Major Oils (In Mil. Tonnes)



The growth in supply and consumption of Palm has been impressive over the last four decades. However when growth is compared to its share of the global production, the relevance of Palm to the global pool of Vegetable Oils, is astounding. Palm has been the only major oil which has grown in market share by nearly 2000% over the last 40 years.

From being a small and insignificant portfolio in the “Oils and Fats” complex during the sixties, Palm now commands approximately a 30% market share in production and consumption of oils, second only to Soya at 33%.

04/05F World Production of 8 Major Oils



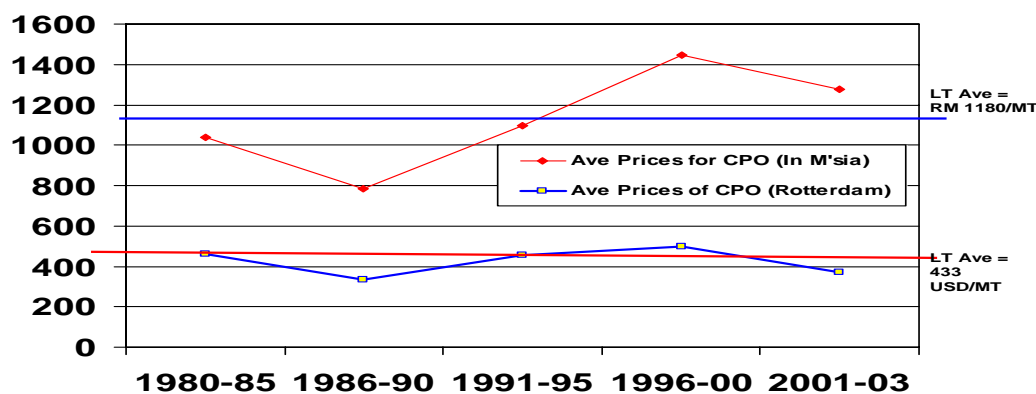
Being a consistent long term supply source, Palm Oil has evolved into an “anchor tenant” in the “Oils and Fats Household”. It exerts tremendous influence on, how trade prices commodities, on production and consumption trends, and inventory policies.

The chart below shows that the average price palm has achieved over the last 25 years is approximately USD430 per ton CIF Rotterdam or RM1180 per ton locally delivered in Malaysia. The price on its own underpins the overall significance of the crop. **This average that we speak about is over 25 years- “the**

productive lifespan of a single palm tree”. When pegged to cost of production, these returns are unrivalled by any other oil or oilseed.

Do we still try to outsmart the market, ride the roller coaster sentiments of the bulls and bears and fool ourselves into trading palm as a commodity or are we actually merchandisers of a long term resource? This question will become more and more relevant in the future as the share of palm increases.

Average Prices of CPO 1980-2003



Source : NPOB

It is very difficult to quantify the contributions, but the influence of Palm may be attributed to some of these significant changes the industry has undergone-

- Consistent supply, which has lead to reduction in “Stocks/Usage” and “Stocks/Production” Ratios.
- Pricings of Commodities are less “Sensitive and Volatile”, barring the occasional weather scare, we experience once every few years.
- Thrust into downstream applications has been remarkable. Quality, Chemical properties, Processing methods, applications, brand image, issues of traceability and sustainable production practices, etc. are being addressed today.

The “Oil Palm” industry itself has undergone a major restructuring. What started as a fragmented, opportunistic money spinner, in the seventies and early eighties, has matured into a “self sustaining” business model. Stand alone business operators, be it small holders, mills, refiners, specialty fats or industrial processors, have all been subjected to immense contraction in their operating margins, thereby leading to a major shake up of the industry.

The “Key and Conclusive” outcome has been the emergence of major players who are in the process of attaining a level of “Operational Sustenance”, by diversifying into the various faculties of the business and integrating the operations from “tree to finished products”.

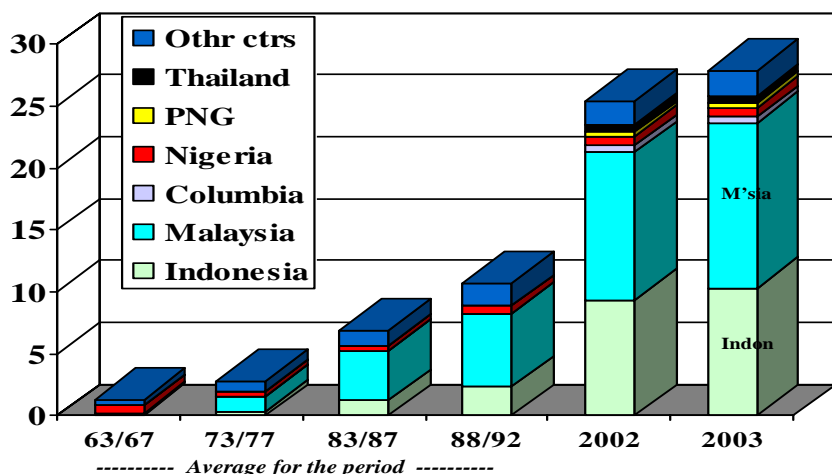
Future Growth

As we speak today, **the “seeds of tomorrow’s production growth in Palm”, were sown 3 years ago.** This is unlike any other Oil, whose productivity on an annual basis depends on various factors, namely- weather, farmer incomes, price support mechanisms, etc. Whilst it is good to plan production, the need to ensure proportionate demand at a sustainable price/margin is always a challenge.

The demand growth for Palm Oil, in our opinion, is likely to come from two segments of the market. Depending on the type of market the demand may be termed-“**Quantitative**” or “**Qualitative**” in nature.

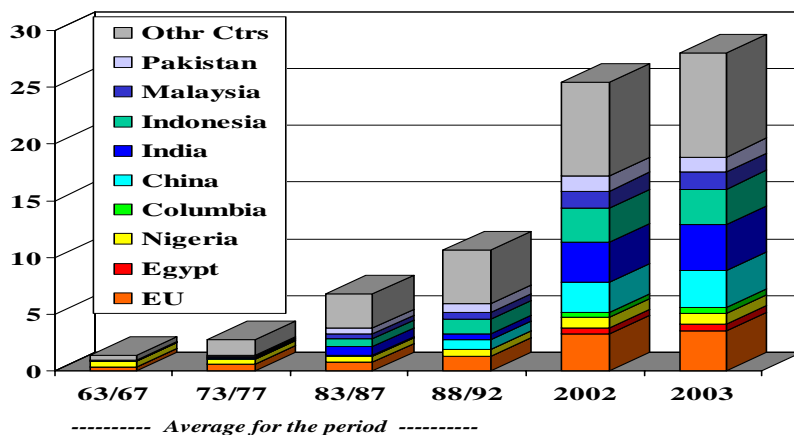
The major areas of production and demand that have emerged over the last few years have been-

Major Producers of Palm Oil (In Mil. Tonnes)



Source : Oil World

Major Consumers of Palm Oil (In Mil. Tonnes)



Source : Oil World

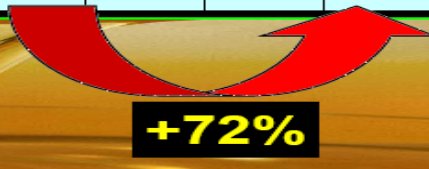
a) Demand from developing countries, which are essentially “**Bulk Demand**” and more sensitive to prices. These countries however have emerged as major volume buyers and have immense potential to further increase their “per capita” consumption in future. China, India, Pakistan, countries in Africa, member nations of Asean would be main growth markets.

Their growth may be termed be “Quantitative”.

b) Demand from developed markets, which place greater attention to issues such as –Oil quality and properties, traceability and supply chain management, applications towards specialized products and Brand image. Per Capita consumption has already peaked and has little room for increase. **Growth in these areas may be termed as “Qualitative”** - EU, USA, Japan, Korea, Australia as examples.

“Demand is always elastic at a price”. The challenge to the producers is the realization of an “acceptable price or margin”. The growth in production of Palm is assured-(we are already looking at 40 mill. tonnes within the next 10 years). The mode of buying market share to place this surplus production is likely to vary between the two types of markets identified:

Palm Oil: Production ('000 tonnes)									
: 5-year average 1976-2020									
	1976-1980	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010	2011-2015	2016-2020
Malaysia	1,911	3,441	5,251	6,990	9,430	12,401	14,621	16,340	17,950
Indonesia	549	1,002	1,785	3,426	5,654	8,566	11,346	14,326	17,150
Asia*	2,485	4,478	7,090	10,483	15,151	21,069	26,163	30,947	35,488
World	3,688	5,880	9,220	13,344	18,717	25,240	31,427	37,405	43,361



Source: Oil world

A) Growth in “Quantitative markets” is likely by-

Investments in-

- i) Offshore processing which will import the raw material (CPO) and process to finished products for the local markets.
- ii) Logistics such as Transport fleet, Ware housing and bulk terminals at origin and consumption countries.
- iii) Packaging, distribution, trading and brand development in consumption countries.
- iv) Investments in plantations and down stream processing facilities, in countries which are suitable for cultivation of oil palm. East Africa is one region where such investments are already in place on a large scale.

B) Growth in “Qualitative markets” is likely by-

- i) Developing strategic alliance with major processors, as a reliable supply source.
- ii) Addressing quality issues on raw material supply.

The Second Kulim Conference, 2004, West New Britain, Papua New Guinea, Sept 27th – 29th.

- iii) Becoming a key supply partner by ensuring traceability in the “Supply to Consumption chain”, through sustainable cultivation practices, dedicated logistics services and quality consistency.
- iv) Investments in down stream processing operations in consumption countries, to ensure a captive outlet for the raw material. (We have already seen this development with major plantation houses from Malaysia, investing in refining and down stream operation in the EU).
- v) Adapt and equip oneself as a “One stop” supply source of various grades of Palm, Lauric (Palm kernel and Coconut) and soft oils.
- vi) Engage in “brand purchase” to gain the ultimate reach to the consumer, thereby ensuring market share and price/margin stability.

Whilst the growth strategy in the above two growth areas differs cosmetically in approach, the key sustaining factor for any business enterprise in future would be to boast of a full integration of its activities from “**Seed to end market**”, which will finally afford the company an economy of scale on operating margins and assure long term profitability.

Focus on the Company’s market-

The company sells its produce to various processors in the EU. On May 1st 2004, 10 new nations joined the EU. This took the number of nations in the Union to 25. A prize to anyone who can name them correctly!!!!!!

Even now the EU is preparing for further enlargement. Bulgaria and Romania hope to join in 2007, and whilst Turkey is currently not actively negotiating its membership, it is widely anticipated that it is more a question of “when” rather than “if” Turkey joins. Bulgaria and Romania would add another 30 million citizens to the EU. Turkey’s population is about 68 million. Obviously this means that the potential European market for NBPOL’s oil is already vast, but it is also growing at a healthy rate.

The duty free concession for PNG palm oil, together with the lack of performance risk and payment risk in many of the above states, means that the EU forms the most attractive market for the company’s produce.

The growth in the old EU (15 countries) was approx.2% per annum. This is more than compensated by the dramatic growth in areas either serviced by the EU or soon to be in the EU. The competition for what is viewed as a safe haven for sales (lack of defaults, ability to sell forward, ease of payment), continues to concentrate on players who are able to meet the criteria-being- good quality, timely delivery and performance.

In recent years the drive for traceability, ethical work practices, environmental sustainability and sustainable business practices has meant that the suppliers to the EU are fewer, but also that they have to be truly committed to this market and to a business that encompasses these traits.

The power of the consumer, (even though most are ignorant about palm oil) is immense and growing. In future these criteria will be minimum requirements prior to being able to supply to these markets.

NBPOL fits this mould perfectly as a dedicated supplier with full traceability of process from “Seed to Oil”- “Origin to Consumption”. These attributes have helped the company to achieve a “**Preferred Supplier**” status, with many of the leading processors in the EU. Aarhus in U.K., Unigra in Italy, Lipidos in Spain, Unilever, The ADM group companies in EU, to name a few, have an established long term relationship with the company and are receivers of the company’s produce of Crude and refined Oils on a monthly basis.

The Second Kulim Conference, 2004, West New Britain, Papua New Guinea, Sept 27th – 29th.

The geographical split in choosing target buyers means that to some extent NBPOL's buyers are also offered a degree of protection from the two new mammoth plants being built in Rotterdam. So that we all know what I am referring to, **IOI is building a 1 million tonne refinery and Kuok a 500,000 metric tonnes refinery.** Our buyers are perfectly placed to service the expanding EU areas as well as parts of the former USSR, North Africa and the Middle East.

Bio-Fuel

In the directive 2003/30/EC dated 8th May 2003, the European parliament set out to promote the use of bio-fuels and other renewable fuels for transport and energy production. Briefly the EU set the following bio-fuel targets for each member state:

a) By 31/12/2005- 2% as calculated by their energy content, of all petrol and diesel for transport purposes should be available in their markets.

b) This figure should rise by 5.75% by 31/12/2010.

c) There should be a 20% substitution of conventional fuels by alternative fuels by 2020.

In 2003 the combined production of bio-fuels totaled 1.434 million tonnes and 2004 it is expected at 2.246 million tonnes. When I tell you that in 2002, 500 million tonnes of crude mineral oil or petroleum products were imported into the EU, you will get some idea of the potential size of the market for renewable fuels. Rapeseed oil and lower quality palm products and even crude palm oil will be the main alternatives. **The estimated increase in palm imports for this use in 2005 is already in the region of 100-150,000 tonnes.**

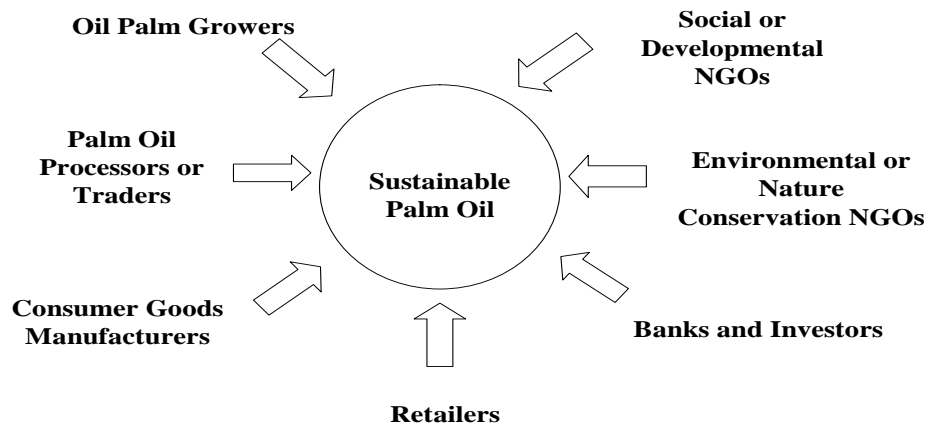
All the above points towards a segregation in the market between edible and non-edible uses, but overall an impressive growth in palm imports. The edible sector will be dominated by consumer influences and this will in turn become a major entry barrier to new suppliers.

Sustainable Palm Oil

It will be heartening to note to all present here, that some of the very companies that buy from NBPOL, have actually initiated and taken a lead role to develop a “globally acceptable’ criteria for sustainable palm oil production and use. **Aarhus, Unilever together with Golden Hope, Migros, MPOA and the WWF started an informal cooperation on production and usage of sustainable palm oil.**

The inaugural meeting was held in Kuala Lumpur in August 2003 and in April 2004 the “RSPO” – (Roundtable on Sustainable Palm Oil) was formally established under Article 60 of the Swiss Code with a governance structure that ensures fair representation of all the stake holders throughout the supply chain.

Players in the Sustainable Palm Oil Supply Chain



The main objectives of the “RSPO” are the following-

- a) Research and develop definitions and criteria for the sustainable production and use of palm oil.
- b) Undertake practical projects designed to facilitate implementation of sustainable practices.
- c) Develop solutions to practical problems related to the adoption and verification of best practices for plantation establishment and management, procurement, trade and logistics.
- d) Acquire financial resource from private and public funds to finance projects under the auspices of the “RSPO”.
- e) Communicate the Roundtable work to all stake holders and to a broader public.

These initiatives are slowly but surely being addressed by responsible producers in Malaysia, Indonesia and PNG. Substantial progress has been made in various areas through intense research and application. Some of the results we are privy to today. Others will take time, commitment, resources and most importantly the “**desire**” to be identified as a “Sustainable producer”.

In Summary:-

The qualitative markets that we supply to are becoming far more sophisticated in their needs. The consumer is far more aware of what they are purchasing and want to buy quality products. On a daily basis the media concentrates on the inequalities of the world, and the people of the EU feel they pay fair prices for their brands, and therefore correctly feel that the ingredients should come from reliable, fair producers. Ethical practice is not just a snappy term of the moment; it is with us to stay. Sustainability of the environment is now a major talking point and in the future I am certain that there will be some type of certification involved. We must position ourselves to meet these demands on an ongoing basis. We are already ahead of most of our competitors, and I am certain that it will remain that way.

THANK YOU

World Production of 7 Major Oils Seeds

Year	63/67	73/77	83/87	88/92	00/01	01/02	02/03	03/04P	04/05F
7 Major Oilseeds (In Million Tonnes)	78.02	116.77	177.59	208.09	305.2	315.64	321.79	322.89	357.51

World Production of 8 Major Oils

Year	63/67	73/77	83/87	88/92	00/01	01/02	02/03	03/04P	04/05F
7 Major Oils (In Mil. Tonnes)	16.25	23.5	37	44.42	65.05	66.2	66.97	70.54	73.82
Palm Oil (In Mil. Tonnes)	1.35	2.8	6.92	10.75	23.81	25.67	27.53	28.64	30.48

Consumption of 8 Major Oils and Ending Stocks

Year	63/67	73/77	83/87	88/92	00/01	01/02	02/03	03/04P	04/05F
Consumption (In Million Tonnes)	17.55	26.09	43.66	55.10	88.35	92.26	95.53	98.93	103.41
Ending Stocks (In Million Tonnes)	2.41	3.38	6.60	8.35	11.54	10.36	9.30	9.61	10.29

Total Harvested Area for Production of 7 Major Oilseeds

Year	73/77	83/87	88/92	01/02	02/03	03/04P	04/05F
Harvested Area for Production (Million Hectares)	112.33	131.46	141.01	192.73	193.21	208.95	213.57

Production Share of Palm Oil vs 8 Major Oils (in Metric tonnes and %)

Year	63/67	73/77	83/87	88/92	2002	2003
8 Major Oils (In Million Tonnes)	17.60	26.30	43.92	55.17	94.50	99.18
Palm Oil (In Million Tonnes)	1.35	2.80	6.92	10.95	25.42	27.92

Year	63/67	73/77	83/87	88/92	2002	2003
Palm Oil against 8 Major Oils (%)	7.67	10.64	15.75	19.48	26.89	28.15

Consumption Share of Palm Oil vs 8 Major Oils (in MT and %)

Year	63/67	73/77	83/87	88/92	2002	2003
8 Major oils (in Million Tonnes)	17.55	26.09	43.66	55.10	95.53	98.93
Palm Oil (in Million Tonnes)	1.36	2.75	6.83	10.70	25.53	28.12

Year	63/67	73/77	83/87	88/92	2002	2003
Palm Oil against 8 Major Oils (%)	7.75	10.55	15.64	19.41	26.72	28.42

Average Price for CPO (1980-2003)

Year	1980-85	1986-90	1991-95	1996-00	2001-03
Ave Prices for CPO (In M'sia) RM	1,038	782	1,096	1,445	1,279
Ave Prices of CPO (Rotterdam) USD	460	335	453	500	373

Major Producers of Palm Oil (In Million Tonnes)

Countries/ Year	63/67	73/77	83/87	88/92	2002	2003
Indonesia	0.11	0.39	1.24	2.32	9.37	10.30
Malaysia	0.16	1.22	3.98	5.93	11.90	13.30
Columbia	-	-	-	-	0.53	0.53
Nigeria	0.55	0.43	0.40	0.61	0.78	0.79
PNG	-	-	-	-	0.32	0.33
Thailand	-	-	-	-	0.60	0.64
Othr ctrs	0.44	0.75	1.28	1.87	1.92	1.98

Major Consumers of Palm Oil (In Million Tonnes)

Countries/ Year	63/67	73/77	83/87	88/92	2002	2003
EU	0.38	0.64	0.75	1.28	3.30	3.50
Egypt	-	-	-	-	0.47	0.64
Nigeria	0.47	0.42	0.50	0.64	0.95	0.97
Columbia	-	-	-	-	0.45	0.44
China	0.02	0.02	0.10	0.81	2.65	3.30
India	0.02	0.09	0.77	0.55	3.55	4.06
Indonesia	0.03	0.05	0.75	1.29	2.99	3.12
Malaysia	0.01	0.08	0.42	0.62	1.50	1.51
Pakistan	-	0.10	0.45	0.71	1.30	1.33
Othr Ctrs	0.44	1.34	3.07	4.78	8.25	9.18

Source- Oil World, MPOB , RSPO

MAJOR OIL SEEDS**WORLD PRODUCTION (MILLION TONNES)**

	Oct/Sept 04/05F	03/04P	02/03	01/02	00/01
Soybeans	215.35	186.32	196.65	184.47	175.25
Cotton Seed	38.34	35.75	33.33	37.32	33.96
Ground Nut	23.46	23.17	22.09	24.00	23.05
Sun Seed	25.60	25.74	23.82	21.31	23.21
Rape Seed	41.49	39.13	33.05	36.68	37.49
Palm Kernel	8.12	7.73	7.47	6.86	6.64
Copra	5.15	5.01	5.28	5.00	5.66
	357.52	323.85	321.61	315.65	305.21

7 MAJOR OILS**WORLD PRODUCTION (MILLION TONNES)**

	Oct/Sept 04/05F	03/04P	02/03	01/02	00/01
Soybeans	33.43	31.16	31.07	29.44	27.08
Cotton Seed	4.51	4.14	3.95	4.30	3.94
Ground Nut Oil	4.86	4.84	4.46	5.33	4.94
Sunflower Oil	9.17	9.53	8.64	7.42	8.69
Rape Seed Oil	15.08	14.29	12.41	13.47	14.01
Palm Kernel Oil	3.56	3.37	3.28	2.99	2.91
Coconut Oil	3.21	3.20	3.20	3.25	3.50
	73.82	70.54	66.97	66.20	65.05
Add Palm	30.48	28.64	27.53	25.07	23.81
	104.3	99.18	94.50	91.27	88.86

WORLD CONSUMPTION OF 8 MAJOR OILS (MILLION TONNES)

	Oct / Sept 04/05 F	03/04P	02/03	01/02	00/01
Soybean Oil	33.06	31.38	31.34	29.73	26.56
Cotton Oil	4.47	4.11	4.02	4.29	3.95
Ground Nut Oil	4.88	4.76	4.57	5.36	4.92
Sunflower Oil	9.20	9.56	8.59	7.63	9.14
Rape Seed	14.90	14.12	12.60	13.73	14.23
Palm Oil	30.90	28.31	27.74	25.18	23.48
Palm Kernel Oil	3.50	3.47	3.40	2.99	2.73
Coconut Oil	3.21	3.28	3.27	3.35	3.35
	103.41	98.99	95.53	92.26	88.35

Source- Oil World, MPOB, RSPO