

OVERVIEW OF THE MALAYSIAN OIL PALM INDUSTRY 2012**FOREWARD**

The year 2012 has been a challenging year for the Malaysian oil palm industry. During the first half of the year, the industry was faced with lower Crude Palm Oil (CPO) production compared to corresponding period of 2011 as Fresh Fruit Bunch (FFB) yielded low due to stress on the trees after experiencing high FFB production in 2011, as well as high imports of palm oil. In the second half of the year, palm oil prices declined as palm oil stocks build-up arising from high carry-over stocks in the beginning of the year, increase CPO production as well as weaker export demand. Palm oil stocks reached 2.63 million tonnes at the end of December 2012, CPO production declined marginally to 18.79 million tonnes and imports increased to 1.39 million tonnes. Total exports of palm products was 24.56 million tonnes, an increase of 1.2% with palm kernel cake and oleochemical products registered increase in exports, while palm oil recorded a decline of 2.4% to 17.56 million tonnes. Average price of CPO for the year was RM2,764 per tonne, lower by 14.1% compared to RM3,219 in 2011, while export revenue of palm products declined by 11.2% to RM71.40 billion against RM80.41 billion recorded in 2011 due to lower export prices.

The oil palm planted area in 2012 reached 5.08 million hectares, an increase of 1.5% against 5.00 million hectares recorded in 2011. This was mainly due to the increase in planted area in Sarawak, which recorded an increase of 5.3% or 54,651 hectares. Sabah is still the largest oil palm planted state, with 1.44 million hectares or 28.4% of total oil palm planted area, followed by Sarawak with 1.08 million hectares with 21.2%.

Production of CPO in 2012 declined marginally by 0.7% to 18.79 million tonnes, with Peninsular Malaysia was down marginally by 0.5% to 10.32 million tonnes, while Sabah declined by 5.1% to 5.54 million tonnes. Sarawak, on the other hand registered an increase of 8.4% to 2.92 million tonnes due to new areas coming into production.

Palm oil stocks in 2012 was higher by 27.7% to close at 2.63 million tonnes as compared to 2.06 million tonnes recorded in 2011. The high closing stock was attributed to the high palm oil opening stocks, increased in palm oil imports by 6.5% and decline in palm oil exports by 2.4%. Palm oil imports rose due to the need to supplement the decline in palm oil production (0.7%) to 18.79 million tonnes compared to 18.91 million tonnes in 2011 as well as to cater demand for further processing (local and export).

Total exports of oil palm products, consisting of palm oil, palm kernel oil, palm kernel cake, oleochemicals, biodiesel and finished products increased marginally by 1.2% or 0.29 million tonnes to 24.56 million tonnes in 2012 from 24.27 million tonnes recorded in 2011. Total export revenue, however declined by 11.2% or RM9.02 billion to RM71.40 billion compared to the RM80.41 billion achieved in 2011 due to lower export prices.

Exports of palm oil declined by 2.4% to 17.56 million tonnes in 2012 as against 17.99 million tonnes in the previous year. China, P.R continued to maintain its position as the largest palm oil export market for the 11th consecutive year, with off-takes totaling 3.50 million tonnes or 19.9% of total palm oil exports, followed by India 2.63 million tonnes (15.0%), the European Union (EU) 2.22 million tonnes (12.6%), Pakistan 1.34 million tonnes (7.6%), USA 1.03 million tonnes (5.9%), Japan 0.56 million tonnes

(3.2%) and Iran 0.55 million tonnes (3.1%). These seven (7) markets combined accounted for 11.83 million tonnes or 67.4% of total Malaysian palm oil exports in 2012.

The decline in palm oil export was mainly due to lower export volume to China, P.R, Pakistan, Egypt, UAE and the Philippines. Palm oil exports to China, P.R declined sharply by 12.1% or 0.48 million tonnes to 3.50 million tonnes mainly due to higher imports of soyabean for domestic crushing and higher imports of Indonesian palm oil. Exports to Pakistan decreased by 26.2% or 0.48 million tonnes to 1.34 million tonnes attributed to the higher imports of Indonesian palm oil during the first half of the year as well as the increase in import of canola (for domestic crushing) in January/October, especially from Australia. The country's political unrest as well as the high import of sunflower oil from Argentina had contributed to the decline in palm oil export to Egypt by 39.3% or 0.28 million tonnes to 0.43 million tonnes. The decline in palm oil export to UAE by 57.1% or 0.23 million tonnes to 0.17 million tonnes was due to low re-export of palm oil to Turkey. The recovery in domestic coconut production due to favourable weather conditions had contributed to the lower palm oil export to the Philippines by 44.3% or 0.23 million tonnes to 0.29 million tonnes.

While most major markets registered declines in off-takes, some markets recorded increases in exports, namely India, the EU, Iran and Bangladesh. Malaysian exports of palm oil to India increased significantly by 57.8% or 0.96 million tonnes to 2.63 million tonnes arising from lower supply availability of domestic vegetable oils, especially rapeseed oil (declined by 10.7% or 2.20 million tonnes from 2.50 million tonnes recorded in 2011). Another contributing factor was the competitiveness price of palm oil against other competing oils, such as soyabean oil, coupled with the increased intake of CPO due to the 0% import duty, which favoured imports of CPO. The lower production of domestic rapeseed oil arising from reduced production of rapeseed as well as a decline in crushing activity was the major contributing factor for the increase in palm oil exports to the EU by 10.7% or 0.21 million tonnes to 2.22 million tonnes. Palm oil exports to Iran increased by 60.2% or 0.21 million tonnes to 0.55 million tonnes due to the decline in oilseeds imports (for domestic crushing activity) during the first half of 2012. In addition, the exemption of sanctions by the US Government on seven (7) countries, including Malaysia for six (6) months (effective end of June 2012) had contributed to the high off-take of Malaysian palm oil. The higher demand for palm oil from the local food industry was the main reason for the increase in palm oil export to Bangladesh by 82.2% or 0.12 million tonnes to 0.27 million tonnes.

Palm kernel oil exports declined by 7.9% to 1.08 million tonnes in 2012. USA was the major export market for palm kernel oil with 0.24 million tonnes (or 21.7% of total palm kernel oil exports), followed by China, P.R 0.19 million tonnes (17.3%), the EU 0.15 million tonnes (13.7%) and Japan 0.09 million tonnes (8.4%).

Exports of palm kernel cake increased by 10.4% to 2.46 million tonnes. The major palm kernel cake export markets were the EU with 0.96 million tonnes (or 38.9% of total palm kernel cake exports), New Zealand 0.70 million tonnes (28.6%) and South Korea 0.47 million tonnes (19.1%).

Exports of oleochemical products rose by 19.2% to 2.60 million tonnes in 2012. The major export markets for oleochemicals were the EU with 0.66 million tonnes (25.4% of total oleochemical exports), China, P.R 0.37 million tonnes (14.2%), USA 0.23 million tonnes (8.8%), Japan 0.22 million tonnes (8.5%) and India 0.16 million tonnes (6.2%). The major oleochemical products exported were fatty acids (0.86 million tonnes or

33.1% of total oleochemical exports), followed by fatty alcohol (0.56 million tonnes or 21.5%), methyl ester (0.48 million tonnes or 18.5%), soap noodles (0.36 million tonnes or 13.8%) and glycerine (0.31 million tonnes or 11.9%). The increase in exports of oleochemical products was due to the higher demand from the EU, China, P.R, India and USA.

Potential export markets for oil palm products were mostly African countries, namely Angola, Gabon and Guinea.

The average CPO price recorded for the year 2012 was RM2,764.00, a decline of RM455.00 or 14.1% against RM3,219.00 in the previous year. CPO prices traded firmer averaging at RM3,189.00 and RM3,197.00 per tonne during the first and second quarter of the year respectively, supported mainly by positive sentiments related to world supply tightness of vegetable oils, especially soyabean oil. However, CPO price declined to RM2,837.00 during the third quarter of the year mainly due to bearish market sentiments resulting from the unresolved Euro-zone financial crisis that lead to poor demand of oils and fats, coupled with the seasonal uptrend in palm oil production. Subsequently, CPO price was down to its lowest level in the year during the fourth quarter of 2012, averaging at RM2,181.00 on continued concerns over the build-up in palm oil stock levels reaching its highest level of 2.63 million tonnes in December, 2012.

In line with the overall decrease in local CPO prices coupled with the weaker world vegetable oil prices in 2012, namely that of soyabean oil (SBO) which was lower by 5.6% to US\$1,226/tonne and rapeseed oil (RSO) by 9.4% to US\$1,240/tonne against US\$1,299/tonne and US\$1,368/tonne respectively in 2011, the average export price for processed palm oil products declined. The price of RBD palm oil was down by RM455.50 or 13.3% to RM2,970.50; RBD palm olein by RM544.50 or 15.5% to RM2,963.00; and RBD palm stearin by RM317.00 or 10.2% to RM2,786.00. However, PFAD price traded slightly higher by RM27.50 or 1.1% to RM2,522.50 mainly due to increase demand (India, Pakistan, Bangladesh and China, P.R) for PFAD application in non-edible palm based product, mainly for soap.

The average price of palm kernel (PK) in 2012, declined by RM683.50 or 31.0% to RM1,522.50 from RM2,206.00 recorded in the previous year. The lower price was mainly due to weaker domestic crude palm kernel oil (CPKO) price sentiments. The price of CPKO in 2012 declined by RM1,361.50 or 29.5% to RM3,249.50, down from RM4,611.00 recorded in the previous year. The lower price was in tandem with the weaker world lauric oil prices in 2012, namely that of PKO which was lower by 32.6% to US\$1,110/tonne and coconut oil by 35.8% to US\$1,111/tonne against US\$1,648/tonne and US\$1,730/tonne respectively in 2011.

The average FFB price at 1% OER was lower by 16.7% to RM30.21, down from RM36.28 achieved in the previous year, which was in tandem with the lower CPO and PK prices. Based on the national oil extraction rate (OER), the average price of FFB in 2012 was equivalent to RM615/tonne as against RM738/tonne in the previous year.

**SUMMARY ON THE PERFORMANCE OF THE MALAYSIAN OIL PALM INDUSTRY,
2012**

	2011	2012	DIFFERENCE	
			QUANTITY / VALUE	(%)
PLANTED AREA (HECTARES)				
MALAYSIA	5,000,109	5,076,929	76,820	1.5
PENINSULAR MALAYSIA	2,546,760	2,558,103	11,343	0.4
SABAH	1,431,762	1,442,588	10,826	0.8
SARAWAK	1,021,587	1,076,238	54,651	5.3
PRODUCTION (Tonnes)				
CRUDE PALM OIL	18,911,520	18,785,139	-126,381	(0.7)
PALM KERNEL	4,706,603	4,705,964	-639	(0.0)
CRUDE PALM KERNEL OIL	2,144,698	2,164,024	19,326	0.9
PALM KERNEL CAKE	2,387,056	2,399,204	12,148	0.5
CLOSING STOCKS (Tonnes)				
CRUDE PALM OIL	1,066,291	1,575,214	508,923	47.7
PROCESSED PALM OIL	991,005	1,052,316	61,311	6.2
TOTAL PALM OIL	2,057,296	2,627,530	570,234	27.7
EXPORT (Tonnes)				
PALM OIL	17,993,265	17,562,841	-430,423	(2.4)
PALM KERNEL OIL	1,176,203	1,083,476	-92,727	(7.9)
PALM KERNEL CAKE	2,227,410	2,459,517	232,107	10.4
OLEOCHEMICALS	2,181,430	2,600,812	419,382	19.2
BIODIESEL	49,999	28,983	-21,017	(42.0)
FINISHED PRODUCTS	402,909	360,795	-42,114	(10.5)
OTHER PALM PRODUCTS	240,456	465,197	224,740	93.5
TOTAL EXPORTS (Tonnes)	24,271,672	24,561,620	289,948	1.2
EXPORT REVENUE (RM MILLION)				
PALM OIL	60,471.92	52,957.24	-7,514.68	(12.4)
PALM KERNEL OIL	6,097.36	4,094.35	-2,003.01	(32.9)
PALM KERNEL CAKE	924.69	1,021.16	96.47	10.4
OLEOCHEMICALS	10,846.90	11,455.66	608.76	5.6
BIODIESEL	179.72	98.44	-81.28	(45.2)
FINISHED PRODUCTS	1,717.08	1,492.98	-224.10	(13.1)
OTHER PALM PRODUCTS	173.76	275.95	102.19	58.8
TOTAL REVENUE (RM MILLION)	80,411.43	71,395.77	-9,015.66	(11.2)
IMPORT (TONNES)				
PALM OIL	1,305,676	1,391,013	85,337	6.5
PALM KERNEL OIL	388,516	360,224	-28,292	(7.3)

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PRICE (RM/TONNE)				
FFB (MILL GATE)	738.00	615.00	-123.00	(16.7)
CPO (LOCAL DELIVERED)	3,219.00	2,764.00	-455.00	(14.1)
PALM KERNEL (EX-MILL)	2,206.00	1,522.50	-683.50	(31.)
CPKO (LOCAL DELIVERED)	4,611.00	3,249.50	-1,361.50	(29.5)
RBD PALM OIL (FOB)	3,426.00	2,970.50	-455.50	(13.3)
RBD PALM OLEIN (FOB)	3,507.50	2,963.00	-544.50	(15.5)
RBD PALM STEARIN (FOB)	3,103.00	2,786.00	-317.00	(10.2)
PFAD (FOB)	2,495.00	2,522.50	27.50	1.1
OER (%)				
PENINSULAR MALAYSIA	20.08	19.98	-0.10	(0.5)
SABAH	20.74	21.02	0.28	1.4
SARAWAK	20.58	20.43	-0.15	(0.7)
MALAYSIA	20.35	20.35	0.00	0.0
YIELD (TONNES / HECTARE)				
FFB	19.69	18.89	-0.80	(4.1)
OIL	4.01	3.84	-0.17	(4.2)