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Malaysia sows the seed of a better life

Malaysia is blessed to have oil below the sea and onshore. Both crude and palm oil are trading at record-high prices, and contributing significantly to the economy. Business Times interviews Malaysian Palm Oil Council chief executive officer Tan Sri Yusof Basiron.

QUESTION: Palm oil is currently trading at around RM3,650 a tonne. Why are palm oil prices so high? Is palm oil increasingly being burnt for fuel instead of being processed into food?

Answer: The US is growing more corn to produce ethanol, a renewable fuel. Land previously grown with soya is increasingly being planted with corn.

In Europe, farmers are given generous subsidies to grow rapeseed to fuel its biodiesel industry.

This has resulted in a global supply shortage of corn, soya and rapeseed, prompting food manufacturers to use palm oil as a substitute.

So, it is wrong to say palm oil is increasingly burnt for fuel. The reality is otherwise.

The European Union (EU) diverted more than three million tonnes, or 60 per cent, of its rapeseed oil production to biodiesel production, and the US has similarly diverted large quantities of corn and soyabean oil for biofuel feedstock, leading to shortages in food oils and animal feed.

The EU is now drafting a new directive that will indirectly restrict the importation and use of palm biodiesel in the EU.

Malaysia's prospects of biodiesel exports to Europe will be restricted despite palm oil's competitive advantage over other types of biofuel produced there.

In the US, both Oregon and Minnesota have legislated against the use of palm oil as biodiesel.



Q: What is the status of Malaysia's bio-diesel industry?

A: Last year, only 128,193 tonnes were processed into biodiesel for export. That is not even one per cent of the 15.88 million tonnes of total palm oil produced in Malaysia.

Q: Will palm oil prices continue to trade at such high levels for the rest of the year?

A: Prices of crude oil and vegetable oils have become inter-linked because of increasing use of biodiesel in Europe and ethanol in the US. Soyaoil and crude oil prices are having direct and immediate effect on palm oil prices.

Although Malaysia's palm oil closing stock levels have surpassed monthly production for the past seven months, this factor cannot be taken in isolation anymore.

Light sweet crude for August delivery is trading at around US\$146 (RM477) a barrel on the New York Mercantile Exchange.

Over on the Bursa Malaysia Derivatives Exchange, crude palm oil for the third-month benchmark delivery is trading at around RM3,650 a tonne.

As long as crude oil continues to trade at such sky-high levels, it somewhat provides support for palm oil prices.

In the next few months, palm oil could trade at levels approaching RM4,000 a tonne. It is not likely to dip below RM3,000 a tonne for a long, long time.

Q: Who benefits from high palm oil prices?

A: All oil palm planters benefit from high palm oil prices.

This is especially important for Malaysia because growing oil palm has helped alleviate poverty among landless farmers in Malaysia, via the Federal Land Development Authority (Felda) schemes ongoing for more than 50 years.

To date, close to 120,000 Malaysian families have been placed in, and benefited from, Felda schemes encompassing 900,000ha.

Felda's aim to lift the living standards of rural folk through the planting of oil palm and rubber is literally bearing fruit. We are seeing more big houses at the schemes.

Thanks to rising palm oil prices, the Malaysian government's social programmes to bridge the income gap between rural folks and those living in the city have been hastened.

In fact, oil palm planters' earnings are so good that the government has imposed a windfall tax of up to 15 per cent from July 1.

Q: Are high palm oil prices causing rampant expansion of oil palm plantations throughout Malaysia. Are new estates encroaching into forest reserves?

A: Malaysia's land use is guided by the National Agricultural Policy, with the government placing 6.5 million hectares, or 20 per cent, under agriculture.

A planter can only open up an oil palm plantation if he is licensed by the Malaysian Palm Oil Board (MPOB), and the regulator will only allow oil palm to be planted on land zoned for agriculture. Therefore, it is not possible for oil palm plantations to encroach into the forest reserves.

The planting of oil palm trees has always been carried out legally and responsibly. There is no killing of orang utans or protected wildlife.

In fact, due to the limited availability of agricultural land, the progress in oil palm planting has slowed down. Most new plantings now occur in Sabah and Sarawak.

Currently, less than 13 per cent, or 4.3 million hectares, of Malaysia's land mass is planted with oil palm. The bulk of oil palm estates was previously planted with rubber, coconut and cocoa.

The country still has 18.31 million hectares, or 55.7 per cent of its total land area, under forest. As a developing country, Malaysia could have used up to 30 per cent of land area for agriculture and still fare better than the UK, which has 70 per cent of its land for agriculture and just 12 per cent forest.

Q: Since agriculture land is limited, how is Malaysia staying ahead of the competition among other palm oil producers?

A: We'll maintain an optimum balance between opening up land for oil palm and conserving forest. Wildlife, and flora and fauna biodiversity, is very important to our ecosystem.

We'll continue to boost production by improving yield. We're moving up the value chain by offering responsibly produced palm oil. We'll embark on a nationwide exercise in which planters in Malaysia can go through a certificate of assurance with the MPOC (Malaysian Palm Oil Council) and MPOB.

This certification assures edible oil buyers all over the world that Malaysian palm oil is produced legally and responsibly on agriculture land, just like soya and rapeseed oils. Such a verification scheme can be backed by law as every plantation is licensed and registered with the MPOB.