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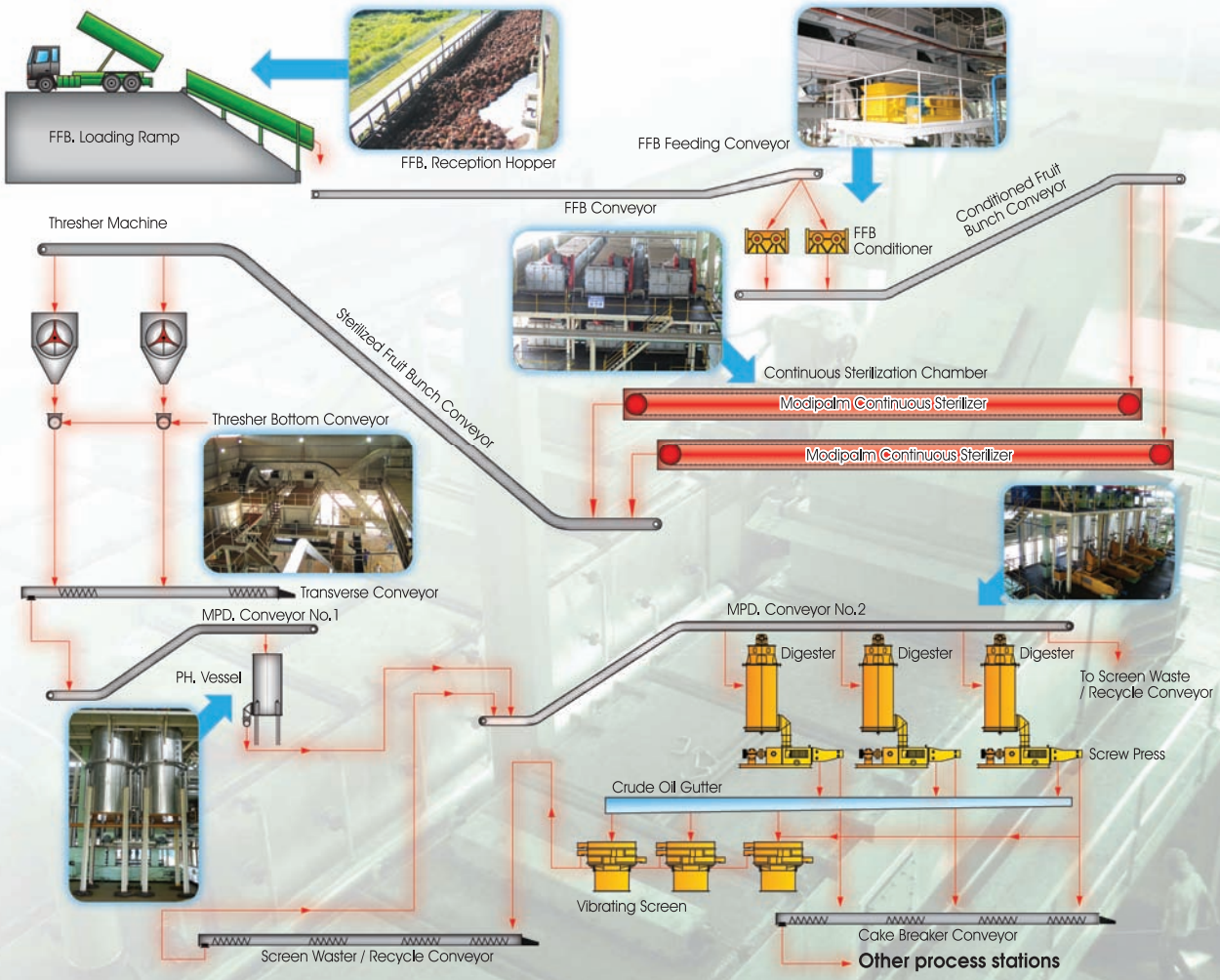

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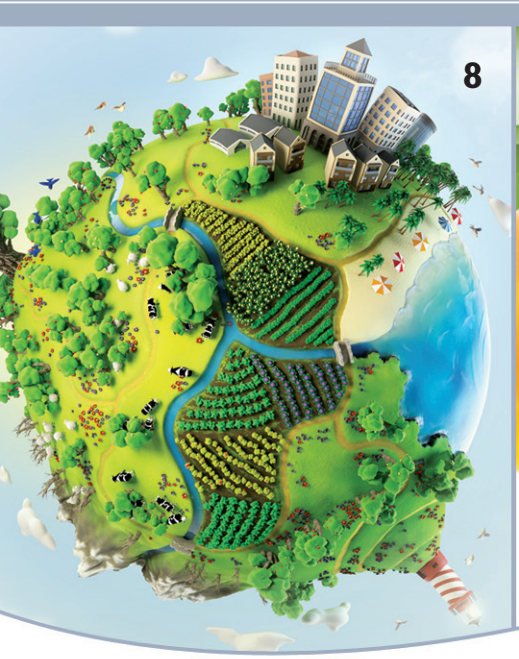

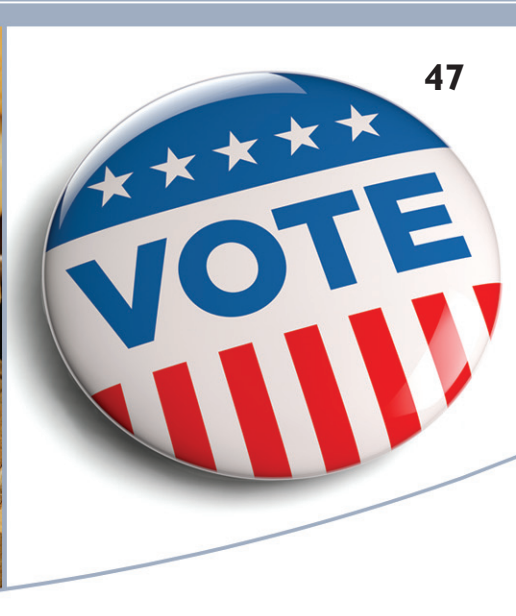

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Attacks by 'Green Police'

The campaign against palm oil is multi-faceted. It includes not only spreading negative ideas about palm oil around the world, but also attacking anyone who dares to tell the positive story. The environmental activists behind this campaign act like 'Green Police'.

They often inhabit hidden corners of the Internet and spread their attacks via social media. The Malaysian palm oil industry is one of their top targets. We have, over the years, seen that they will do anything to keep out the positive story of Malaysian palm oil.

The 'No Deforestation' campaign by The Forest Trust is one such example. This is a campaign that is squarely aimed at limiting the success of Malaysia's palm oil sector. Others try shock tactics –

Greenpeace activists have scaled buildings in media-friendly stunts. The World Wildlife Fund meanwhile claims to support palm oil while moving to limit its production.

Even some governments are involved. The European Union has for decades funded NGOs who lobby against Malaysian palm oil farmers. Yes, the Green Police can be found everywhere.

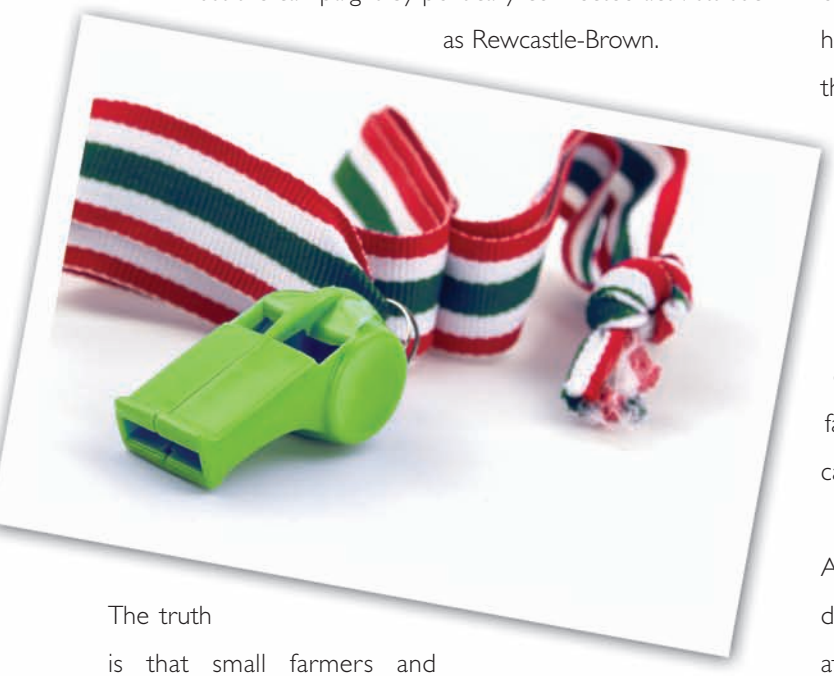
One of the more sinister voices is Clare Rewcastle-Brown, who is related to former British Prime Minister Gordon Brown. She runs a website called the *Sarawak Report* from her comfortable berth in London, many miles from the reality on the ground in Malaysia. She has expended much energy on attacking issues in Sarawak and recently joined the campaign against small farmers who cultivate and produce oil palm. This is obviously sad, but let's examine why she has done so.

Rewcastle-Brown is a committed Green activist whose end goal is zero-development, and therefore, zero-poverty reduction and zero-improvement in the lives of ordinary rural folk across Malaysia. This was the attitude of the 19th century European colonist, but it has no place in the 21st century world.

Rewcastle-Brown has consistently been anti-palm oil and anti-small farmer, and trades only in insults and innuendo. Her campaign against palm oil hurts many hundreds of thousands

across Malaysia, and is an attempt to undermine a genuine success story. This is unacceptable and deserves a strong response from all Malaysians.

The UK Foreign Office has spent substantial sums in recent years on funding Green activists and others who have launched attacks against Malaysian small farmers. This must stop, and so must the campaigns by politically-connected activists such as Rewcastle-Brown.



The truth is that small farmers and villagers across Malaysia have seen their lives improve through their own hard work, and through the government's wise decisions. The 300,000 small farmers are better off and more prosperous than before. With her words, Brown only insults those who have worked all their lives to achieve a better standard of living.

Tens of thousands of Sarawak's small farmers have benefited from the policies of the government and of SALCRA. The truth is that the *Sarawak Report* is not interested in what is best for small farmers and rural folk, but only in attacking the government.

Our small farmers have a right to plant oil palm, to pursue development, and to achieve prosperity. Rewcastle-Brown, however, mocks small farmers for buying cars: does she think that rural folk should not own cars? This is patronising and elitist.

Such prejudices are not welcome in modern Malaysia, where development and personal achievements are celebrated.

The writing in *Sarawak Report* is similar to that of other anti-development campaigns by green NGOs. Each time, small farmers are a target, and they are inevitably hurt by the campaigns.

As CEO of the Malaysian Palm Oil Council, I am proud to defend our record of success and achievement. Those who attack and insult our companies and small farmers are not welcome, and should not be given support.

Dr Yusof Basiron

www.ceopalmoil.com

Skewed View of Sustainability

Third pillar ignored

The debate over the sustainability of palm oil, led too often by Western environmental NGOs, largely misses one of the three pillars of sustainable development – economic sustainability.

There is a perception, particularly among Western policy makers, that the stellar economic and social gains from oil palm are a recent development. Yet part of Malaysia's current relative prosperity can be directly attributed to around 50 years of policy making that has placed oil palm cultivation at the core of a strategy to encourage rural development, thereby increasing the prosperity of small farmers.

There is compelling data on how oil palm has reduced poverty in Malaysia. A 2001 study noted that the incidence of poverty in agriculture as a whole had reduced from 68.3% in 1970 to only 11.8% in 1997 because of oil palm.

The development gains can also be attributed to a clear goal set by Malaysian policy makers to overcome the problems of the 'landless poor' by giving poor rural farmers land titles and property rights through resettlement programmes.

These programmes commenced in the 1950s with the establishment of the Federal Land Development Authority (FELDA). Its first development activities – the resettlement of landless communities in oil palm and rubber plantations – originally had the financial backing of the World Bank for six out of many major projects.

Between 1956 and 1984, the Bank noted that FELDA had established farming plots for nearly 90,000 families. It noted that part of FELDA's success was due to its modeling of the resettlement schemes on existing societal structures.

This has continued. Data from 2008 shows that smallholders in the resettlement areas managed to earn a monthly income of RM1,386 from oil palm cultivation, excluding income from other sources. This was higher than the national minimum wage.

At the macro level, the oil palm industry directly contributes around 3% of GDP, and directly employs around 800,000 people in Malaysia. Secondary industries, such as processing, lift the

contribution to around 6% of GDP and employment of about 1.4 million people. Today, more than 300,000 small farmers rely on producing oil palm – a statistic that is economically significant and holds importance for the social fabric of the nation, particularly in rural areas.

What is not shown in the statistics is that the establishment of farming plots has given landless farmers something that others in the developing world and in the region still sorely lack: property rights. Malaysia has a stable property rights system, and strong legal institutions to back it up. The system was inherited from the British colonial period, and is similar to those in place in Australia, New Zealand, Canada, Singapore and parts of the US.

There are a number of ways in which strong property rights and stable land tenure contribute to sustainable development. When property rights are stable, farmers feel secure in obtaining ongoing benefits from their land. This means they will make long-term investments in the sustainability of the land, including environmental aspects. It also means that inferior farming practices that establish tenure over land – such as slash and burn agriculture – are dispensed with.

Additionally, land titles can be used as collateral for loans. This leads to investment in capital improvements or, alternatively, new investments. In short, a system of stable property rights promotes a transition from subsistence to modern agriculture, and pays an environmental dividend as well as a social dividend. The industry's success has been boosted by significant national investments in research and development (R&D) since the 1960s. Malaysia has been a leader in agricultural R&D for at least the last two decades.

Its total spending on R&D – around US$450 million – is only eclipsed by India and China. Its R&D intensity (research and development spending as a percentage of agricultural GDP) is higher than any country in the Asia-Oceania region, with the exception of high-income countries.

And this only includes public sector money. Private research expenditures for plantation development are estimated to be around 30% higher. But again, these positive aspects are ignored by campaigners against palm oil.

Absent stakeholders

The debate on sustainability is divided into two distinct camps. On one side are Western environmental NGOs. On the other side are groups, including small farmers, who take a wider view of social and economic progress. This split is mirrored in the divisions within RSPO membership. The Forest Trust (TFT), for example, only cares about the environment.

Western attacks focus on large companies, accusing them of poor environmental practices, and of disrupting livelihoods in local communities. The goal is to place restrictions on key parts of the supply chain, such as large palm oil buyers, to force producers to comply with these demands.

The voices of smallholders are largely absent from the debate. The Western NGOs claiming to represent social concerns are often aligned with political views on the left; the idea of increased wealth, economic growth and property rights is alien to them. Many have admitted that they do not want to see development in tropical countries.

This hijacking of the socio-economic aspects has resulted in some so-called sustainability policies that have a negative impact on smallholders. The RSPO has had a lacklustre track-record of looking after the interests of smallholders. The very notion of sustainability certification adds costs for small producers and increases barriers to entry.

The RSPO and WWF have attempted to convey the message that RSPO certification somehow benefits smallholders. However, a close analysis of a community-level project in Sumatra that was promoted by Greenpeace reveals that it would be unable to meet RSPO's relatively strict social and environmental policies.

Similarly, the 'No Deforestation' initiatives by TFT and Greenpeace, and new procurement policies by major multinational corporations, exclude oil palm smallholders from supplying to larger firms and effectively cement the large market shares of established players.

Celebrated environmental journalist Fred Pearce recently reported Unilever as stating that 80% of its smallholder suppliers would be cut from the supply chain because of new traceability policies. Clearly, the social and economic aspects of sustainability are being overridden by environmental concerns.

The World Bank too has come under pressure to change its attitude towards oil palm development. From the 1960s, the Bank had been in favour of the establishment of plantations and had highlighted the success of the FELDA model, noting in one report that Malaysia should consider exporting this.

In 2007, the Bank became subject to considerable campaigning against palm oil by some environmentalist groups. The complaint revolved around finance provided to a Singaporean company with investments in Indonesia.

The Bank then undertook a four-year consultation process to determine a new engagement strategy on oil palm. From reading the report, it is apparent that any sustainability problems do not lie in the crop itself, but in the underlying institutional and governance structures in different countries.

The Bank's final report records no faults with Malaysia's approach to oil palm and, in fact, highlights the benefits that the 'Malaysian model' has brought around the world. One of the most startling statistics it presented is that a 1% increase in oil palm cultivation area in impoverished parts of Indonesia results in a reduction in poverty rates by between 0.25% and 0.5%.

Poverty has always been a thorny issue for Western environmental groups. They claim to be on the side of the poor. However, the policies they advocate and campaigns they undertake against palm oil have had the effect of stunting development and excluding small farmers. And this especially harms the poor in rural communities. If poverty is to be alleviated, there is a need for flexibility to allow oil palm smallholders to continue to supply to Western markets.

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Photo Credit: IJM Land

TRADE ALLIES

The Comprehensive Economic Cooperation Agreement between India and Malaysia, implemented from July 2011, has created a framework that strengthens commercial and economic ties at the government and business levels. Bilateral trade is projected to reach US$15 billion by 2015, Malaysian Plantation Minister the Hon. Amar Douglas Uggah Embas said at the Malaysia-India Palm Oil Trade Fair and Seminar in June this year.

Palm oil will continue to account for a significant portion of the bilateral trade. India's imports of palm oil grew from a mere 150,000 tonnes in 1993 (2% of total oils and fats consumption) to 8.8 million tonnes (42.3%) in 2013, when it was valued at US$1.96 billion and accounted for 27% of all palm oil imports. From January to April 2014, imports of Malaysian palm oil and derived products recorded growth of 6% compared to the same period in 2013.

India's growth over the last two decades has placed it among the world's leading economies and put it in the Trillion-Dollar Club. It has displaced Japan as the third-largest economy in terms of purchasing power parity (PPP), according to the World Bank's International Comparison Programme (ICP) report. Released in April 2014, it is based on the latest survey in 2011 covering 199 economies.

India was ranked after the US and China. Its share of global GDP in terms of PPP was 6.4%, compared to 14.9% for China and 17.1% for the US. The previous survey in 2005 had placed India in 10th place. PPP is used to compare economies and people's incomes by adjusting for differences in prices in different countries to make a meaningful comparison.

India's new government has a strong mandate and has shown willingness to bring about reforms and remove red tape to stimulate economic growth. Fewer regulatory requirements will encourage banks to lend more to infrastructure-related projects. This, in turn, will encourage India's business community to invest more and set up new production and manufacturing units.

Table 1: India – Oilseed Production ('000 tonnes)

	2012-13 (P)	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
Groundnut	5.43	6.96	8.26	5.43	7.17	9.18	4.86	7.99	6.77	8.13	4.12	7.03
Rapeseed & mustard	7.44	6.6	8.18	6.61	7.2	5.83	7.6	8.13	7.59	6.29	3.88	5.08
Sesamum	0.67	0.81	0.89	0.59	0.64	0.78	0.62	0.64	0.67	0.78	0.44	0.7
Soybean	14.14	12.21	12.74	9.97	9.9	10.97	8.85	8.27	6.87	7.82	4.65	5.93
Sunflower	0.56	0.52	0.65	0.85	1.16	1.46	1.23	1.44	1.19	0.93	0.87	0.68
Safflower	0.09	0.14	0.15	0.18	0.19	0.22	0.24	0.23	0.17	0.13	0.18	0.22
Niger	0.09	0.1	0.11	0.1	0.12	0.12	0.12	0.11	0.11	0.11	0.09	0.13
Linseed	0.15	0.15	0.15	0.15	0.17	0.14	0.17	0.17	0.17	0.2	0.18	0.21
Castor	2.15	2.3	1.35	1.01	1.17	1.01	0.76	0.99	0.79	0.8	0.43	0.65
Total	**30.72**	**29.8**	**32.48**	**24.88**	**27.72**	**29.76**	**24.29**	**27.98**	**24.35**	**25.18**	**14.84**	**20.66**

Source: Directorate of Economic & Statistics, Ministry of Agriculture, India

The International Monetary Fund (IMF) expects India's GDP to pick up to 5.5% in the current fiscal year, and 6.3% in the next. GDP growth saw an encouraging rebound in the first quarter of the new fiscal year, 2014-15, growing by almost 6%. Additionally, the IMF expects the figure to reach almost 7% in the medium to long term. All this will be funneled into consumption growth which, in turn, will be an important driver of other sectors.

Despite the high inflation rate in recent years, prices in the country are still well below those in advanced economies, which explains the higher ranking on the PPP measure. According to the IMF, India's economy is the 12th largest and only about a third of Japan's in terms of absolute unadjusted dollars.

"The economies with the lowest prices are either in Africa or Asia and the Pacific and include India, which has the third-largest economy," the report notes in relation to the PPP rationale. "Because economies estimate their GDP at national price levels and in national currencies, those GDPs are not comparable. To be compared, they must be valued at a common price level and expressed in a common currency."

Oilseed production

Table 1 reflects the development, or lack of it, in Indian oilseed production since 2001-02. With limited national resources having been diverted to more essential sectors, oilseed production has increased only 48% in the first 12 years of this century.

Year-on-year production is affected by several factors, principally weather conditions and a shift by farmers to more lucrative commercial crops. After the trough of 2002-03 (total production at 14.8 million tonnes), oilseed production peaked in 2010-11 at 32.5 million tonnes. It has since fallen and is estimated at only 30.7 million tonnes in 2012-13. In spite of growing demand due to the increase in population and affluence of the middle class, domestic oilseed production has stagnated.

The changing patterns of production also reflect changing consumer preferences and commercial viability of various crops in India. Groundnut was the largest produced crop in 2001-02, with rapeseed/mustard and soybean respectively coming second and third. This has changed. Currently, soybean is by far the largest produced crop. Rapeseed/mustard is second, roughly half the level of soybean. Groundnut comes a distant third. This is a cause of concern for palm oil, as higher domestic production of soybean could lead to a change in consumer preference.

Table 2: India – Vegetable Oil Imports

	2013	2012	2011	2010	2009	2008	2007
SFO	1,083,972	1,078,748	871,431	647,672	632,883	66,910	160,550
SBO	1,123,671	1,099,737	941,383	1,568,752	1,107,149	812,832	1,280,808
RSO/Canola oil	57,423	92,701	11,122	8,074	52,238	0	0
CSO/Kardi oil	10,927	5,400	0	13,438	5,069	0	0
CPL	500	0	7,001	990	4,183	4,015	52,819
CPO	5,960,912	6,107,837	5,422,083	5,243,508	5,263,738	4,326,043	3,071,968
CPKO	313,560	174,519	167,954	223,094	216,161	131,497	94,422
RBD PL	2,381,373	1,570,765	1,120,518	1,141,408	1,223,779	955,260	134,186
PKFAD	15,731	10,007	14,919	8,970	20,801	14,810	13,217
PFAD	101,768	110,759	157,154	235,631	277,935	364,727	251,085
CPS/RBD PS	34,796	12,760	15,614	21,099	57,531	90,145	177,187
CNO	3,999	999	2,968	999	16,893	17,014	11,997
Others	0	3,500	39,772	7,987	5,083	40,559	86,774
Total	**11,088,632**	**10,267,732**	**8,771,919**	**9,121,622**	**8,883,443**	**6,823,812**	**5,335,013**

Source: SEA of India

From 2007 to 2013, India imported between 5.3 million tonnes and 11.1 million tonnes of all vegetable oils, principally palm oil, soybean oil and sunflower oil (Table 2).

Vegetable oil imports have gradually risen to keep pace with rising demand and stagnating domestic production, more than doubling between 2007 and 2013. What is of significance is the shift in imports from CPO to RBD palm olein. From a mere 2.5% of total imports in 2007, RBD palm olein imports reached 21.5% in 2013. CPO maintained its share at 55-60% of total imports until this fell to 54% in 2013 as a consequence of increased RBD palm olein imports. Trade bodies are putting pressure on the government to increase the differential of 7.5% between the import duties of CPO and RBD products.

Palm oil performance

Indian vegetable oil imports have been dominated by palm-based products (Tables 3 and 4). Other major imports are soybean oil and sunflower oil.

Except in 2008, palm oil has accounted for 70-80% of total vegetable oil imports due to:

- Its competitive position *vis-à-vis* other edible oils;
- Short shipping time, precluding the need to hold high stocks;
- Versatility of its applications; and
- Increasing awareness of its health and nutritional properties.

However, the competitive dynamics have undergone changes in 2014 in favour of soft oils, resulting in a change in the market share for palm oil in India. From January to September, the market share fell to 66%, compared to 79% in the corresponding period in 2013. The share of soft oils over the same period went up from 21% to 34%.

India has relied heavily on imports to bridge the gap between domestic production of, and demand for, vegetable oils (Table 5).

From 43.3% of total availability of vegetable oils in 2007-08, imports reached 56.9% of total availability in 2012-13. This can only increase in the foreseeable future. With India continuing to shun genetically-modified oilseeds in its general agricultural

Table 3: India – Major Vegetable Oil Imports (tonnes)

	2013	2012	2011	2010	2009	2008	2007
PO	8,808,640	7,990,147	6,945,015	6,882,687	7,069,211	5,927,056	3,881,658
SFO	1,083,972	1,078,748	871,431	647,672	632,883	66,910	160,550
SBO	1,123,671	1,099,737	941,383	1,568,752	1,107,149	812,832	1,280,808
Others	72,349	99,100	14,090	22,511	74,200	17,014	11,997
Total	**11,088,632**	**10,267,732**	**8,771,919**	**9,121,622**	**8,883,443**	**6,823,812**	**5,335,013**

Sources: SEA, MPOC intelligence

Table 4: India – Palm Oil Market Share (%)

	2013	2012	2011	2010	2009	2008	2007
PO	79.44	77.82	79.17	75.45	79.58	86.86	72.76
Others	20.56	22.18	20.83	24.55	20.42	13.14	27.24
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Sources: SEA, MPOC intelligence

policy, the scope for increasing domestic productivity does not seem very great in the near future. India has a large area under oilseed cultivation but its productivity is among the lowest in the world. Also, with the option of other more viable commercial crops, the Indian farmer is unlikely to take to oilseed cultivation in a bigger way.

Imported palm oil is likely to retain its share of 40-45% in total consumption of vegetable oils. Although the government has come up with several schemes to promote oil palm cultivation, various regulatory constraints will continue to impede its growth.

Sensitivity analysis

The gravity of the supply-demand gap can be gauged from extrapolation of the current per capita consumption to likely scenarios of population growth and per capita consumption increase due to economic well-being and changing eating habits of Indians (Table 6).

As at the end of 2013, the Indian population was estimated at 1.25 billion. This is projected to increase at an annual growth rate of 1.4%. At per capita consumption of 15.7kg, domestic demand was estimated at 19.7 million tonnes. If per capita consumption keeps to the same level, domestic demand should rise to 20.5 million tonnes in 2016.

Based on the trend over the last three years, if consumption in India increases to 16.5kg/capita in 2016, the total demand for vegetable oils should increase to 21.5 million tonnes. In an unlikely scenario, should consumption rise to the 2013 world average of 26.7kg/capita, total vegetable oil demand would rise to an astronomical 34.9 million tonnes. With stagnation in domestic production, it is clear that India is still far short of reaching self-sufficiency in meeting its vegetable oil needs.

Bhavna Shah
MPOC India

Table 5: India – Vegetable Oil Availability

	2012-13		2011-12		2010-11		2009-10		2008-09		2007-08	
	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%
Domestic output	8.09	43.10	8.15	44.44	8.52	49.56	7.77	45.68	8.21	48.72	8.20	56.71
Imports	10.68	56.90	10.19	55.56	8.67	50.44	9.24	54.32	8.64	51.28	6.26	43.29
Total available	**18.77**	**100.00**	**18.34**	**100.00**	**17.19**	**100.00**	**17.01**	**100.00**	**16.85**	**100.00**	**14.46**	**100.00**
Imported PO	8.59	45.76	7.88	42.97	6.84	39.79	6.92	40.68	7.00	41.54	5.46	37.76
Other oils	10.18	54.24	10.46	57.03	10.35	60.21	10.09	59.32	9.85	58.46	9.00	62.24
Total available	**18.77**	**100.00**	**18.34**	**100.00**	**17.19**	**100.00**	**17.01**	**100.00**	**16.85**	**100.00**	**14.46**	**100.00**

Sources: SEA, COOIT, MPOC intelligence

Table 6: India – Sensitivity Analysis of Vegetable Oil Demand ('000 tonnes)

Year	Population (million)	Oil consumption (kg/capita)					
		14.8	15.2	15.7	16	16.5	26.74
2011	1.221	18.07	18.56	19.17	19.54	20.15	32.65
2012	1.236	18.29	18.79	19.41	19.78	20.39	33.05
2103	1.252	18.53	19.03	19.66	20.03	20.66	33.48
2014	1.270	18.79	19.30	19.93	20.31	20.95	33.95
2015	1.287	19.05	19.57	20.21	20.60	21.24	34.42
2016	1.305	19.32	19.84	20.49	20.89	21.54	34.90

Sources: Oil World, MPOC Analysis

We welcome input from trade pundits to shed light on these issues:

1. Will Indian import duties be touched upon in the Annual Financial Budget in February 2015 or before?

2. Like any developing country, India faces the dilemma of utilising its scarce resources wisely. Should it focus on its strengths – i.e. cultivation of wheat, rice and sugar – or give due importance to oilseeds with the aim of import substitution?

3. Should Malaysia formulate a separate export policy for India?

4. Have Malaysian exporters prepared their wish list for the Indian Prime Minister's visit to Malaysia in early 2015? Have Indian importers prepared their wish list for him to raise with Malaysia?

Write to the Editor at *bel@mpoc.org.my* and win prizes for the best answer. The Editor's decision is final.

Saying 'YES' to Sustainable Palm Oil

A French initiative

Today, palm oil is the fifth most consumed oil in France. Sunflower oil is the most consumed oil, at more than 5kg per person annually. Rapeseed, olive oil and groundnut oil follow. The range of oils allows for a varied fat intake.

On average, 2.8g of palm oil are consumed per person each day, equivalent to 4% of saturated fat – or about 12% of the saturated fatty acid intake recommended by the French Agency for Food, Environmental and Occupational Health and Safety (ANSES).

Nutritionists agree that palm oil in itself is not pathogenic. Its saturated fatty acid content is precisely what confers its naturally semi-solid consistency at ambient temperature, enabling industrialists to dispense with the partial hydrogenation process previously used with oils that had to be solidified. The advantage? Trans fatty acids – produced in the hydrogenation process and which are known to be clearly toxic – are avoided.

This leaves other contributors, such as butter, cheese or even *charcuterie*, in a 'comfortable' position. It wouldn't even occur to anyone to boycott those products, even though everyone knows they should be enjoyed only occasionally as part of a healthy balanced diet.

The real challenges for oil palm lie in claims that it poses a hazard to the environment. It is a paradox that is still hard to grasp in France, but this plant has characteristics that make it a genuine friend of Nature. It is highly resistant to parasites and demonstrates remarkable longevity (25-year life span); above all, it has exceptional productivity since it bears fruit every two weeks throughout the year, thus producing a yield per hectare that is 10 times higher than that of soybean. To replace it would be tantamount to multiplying by 10 the land needed to cover the planet's dietary needs.

For oil palm growers in the regions concerned, its cultivation has been and remains more than ever a genuine opportunity to reduce poverty. As an example, we estimate that oil palm cultivation earns 10 times more than rice growing.

The social and economic outcomes of the surge in oil palm cultivation are considerable and include modernisation of transport methods and housing rehabilitation; a spectacular rise in school attendance rates; and improved sanitary standards. Far from being the 'green cancer' that the French media as a whole condemn in their reports, the oil palm is

a powerful anti-poverty tool, having a direct impact on the fate of the populations concerned, with almost half of world production coming from family-owned smallholdings.

We will have to feed an extra two billion mouths in future decades. So, the response to the challenges of sustainability cannot be to abandon the oil palm. To do so is not only to take an undeniable economic risk, but also to risk depriving millions of smallholders of one of the most effective means of development to date.

Guarantee of sustainable palm oil

How can we better guarantee to consumers that the highly useful oil palm is actually grown in environmentally-friendly conditions and conditions favourable to local populations? The answer is far from simple, especially given the numerous stakeholders and diverging interests. One initiative – the Roundtable for Sustainable Palm Oil (RSPO) – was started in 2004 under the aegis of the WWF and leading agri-food companies to resolve issues facing the industry.

Today, though, we must go further. It is in order to rise to this challenge that French companies took the initiative to create the French Alliance for Sustainable Palm Oil. The programme aims to provide French citizens with clear information on the issues, by forcefully overturning received ideas.

It will also encourage the use of palm oil produced in highly sustainable conditions, by mobilising the industry as a whole including companies, distributors, refiners and producers. They are backed by leading NGOs that have been working the field for decades now, and that are the only ones able to ensure that the targeted aim becomes a reality.

The members of the Alliance have undertaken to use 100% RSPO-certified palm oil by 2015; and especially 100% sustainable palm oil, according to the strict criteria they have set themselves (Box 1) by 2020. The ultimate objective? To make France a '100% sustainable palm oil' country. Ambitious? Perhaps, but the dynamics set in motion cannot be reversed, and are already beginning to change the order of things.

Guillaume Réveilhac
Chairman
French Alliance for Sustainable Palm Oil

This is an edited version of the article and interviews that follow.

Box 1: What Constitutes Sustainable Palm Oil for the French Alliance?

The French Alliance of Sustainable Palm Oil deems this to be:

- Oil of known origin and therefore traceable oil.
- Oil without an impact on deforestation and which respects high conservation value ecosystems.
- Oil from cultivation practices which respect high carbon value forests.
- Oil from cultivation practices which protect all peat lands in their entirety.
- Oil which does not come from plantations using slash-and-burn farming.
- Oil which protects the rights of workers and local populations and communities, in accordance with the principle of free, informed and prior consent from communities.
- Oil which encourages the development of independent producers farming small plots.

INTERVIEW WITH JOANE HUSSON,
Internal and External Relations Manager,
Ferrero France

Were sales of *Nutella*, the scapegoat of anti-palm oil NGOs, affected by the threat to impose the 'Nutella tax'? Has its image been tainted?

Joane Husson: Given that the brand is renown, *Nutella* found itself at the centre of the controversy. It is difficult to talk of a direct impact on sales, as that is something that can only be seen in the long term. Mainly, the brand's equity was affected, as the controversy impacted consumer trust. Some said they were disappointed to find out that the product contains palm oil. In a global climate of mistrust in agri-food brands, our objective is of course to maintain and restore this trust.

How do you reconcile the need for transparency with respect to ingredients and manufacture, and the desire of all brands to keep their ingredients secret?

Today, consumers demand transparency. However the secret of *Nutella* goes far beyond the ingredients it contains. It concerns as much the quality of the raw materials selected, as the way in which it is manufactured. The desire to control what we consume is relatively new, and it is this that increasingly dictates brand advertising strategies. Brands do not have to tell all or provide an explanation for everything. But they must be clear as to the reasons why they wish to keep their manufacturing process secret, for example.

What can Ferrero provide in terms of an institutional guarantee to demonstrate its good faith to NGOs and consumers?

It does not need to provide anything. Within the company, we see this controversy as the result of a lack of perception of weak signals that emerged within our environment. We have watched this subject escalate since 2008, but we didn't act on it in time. The controversy led us to consider France as priority for the development of advertising.

We are a founding member of the French Alliance for Sustainable Palm Oil, one of the objectives of which is to combat misconceptions with the support of scientists, whose message is more convincing to consumers than that of brands alone. Educating consumers will take a long time; we therefore have to strive to make the food industry irreproachable.

On the *nutellaparlons-en.fr* platform, you have opened a Nutella France Facebook page and *Twitter @ParlonsNutella* thread. What do consumers say in their comments?

Discussions between Ferrero and consumers are highly enlightening. We can see they are happy that the debate was opened and that *Nutella* contributes to it. For them, the fact that *Nutella* has spoken out is a guarantee of credibility. Its ability to convince has been measured through this. *Nutella* the 'star' has come out of the shadows; and discussions have well and truly begun.

Within the company, what has the palm oil industry brought in terms of management, industrial processes and employee involvement?

We have started a certain number of in-house training programmes to introduce the industry. However not everyone will be aware yet of the full scope of Ferrero's commitment. From the end of 2014, all our products worldwide will be produced using fractionated palm oil, but it is a fairly technical subject. Our priority is above all to inform consumers on how to use *Nutella*, and about its nutritional information.

INTERVIEW WITH JEAN-MANUEL BLUET,
Sustainable Development Director,
CSV Coordinator Nestle France

What are the implications of Nestlé France's commitment within the French Alliance for Sustainable Palm Oil?

Jean-Manuel Bluet: For the Nestlé group, palm oil is a 'minor' ingredient as we purchase less than 1% of world production. In 2010, we made a strong commitment to meeting traceability and certification by 2015, but this was met at the end of 2013. This is not enough. This ingredient has been demonised in France, and it appears essential to us to join other committed players in order to promote a sustainable industry. The Alliance aims to represent the industry as a conduit for the media, consumers and public authorities, in order to effectively determine to what extent palm oil is used in food products in France.

Can experience-sharing come of the presence of other industrialists within the Alliance?

That is the other reason why Nestlé has made this commitment – in order to exchange with other companies with less experience, to be able to promote good practices in all possible areas, and to strengthen relations with suppliers and NGOs, etc.

The RSPO is criticised for the complete traceability system ... what is this about exactly?

The RSPO has different levels of certification, which may in effect raise questions. The first, the most restrictive, certifies a 'fractionated' palm oil which can be traced to the mill and plantation group. The second less restrictive level, known as 'mass balance', allows for mixing of certified and non-certified palm oil, and the notion of complete traceability no longer applies.

With the third level there is no traceability whatsoever, and certification is virtual. 'Green palm' certificates can be purchased and guarantee that the company supports sustainable palm oil production upstream, but this bears no relation to the physical flow. Unfortunately, today, most RSPO certificates fall into the third category. Depending on company status, traceability requirements are therefore more or less restrictive.

Will you be able to reach your objective to buy 100% certified sustainable palm oil by 2015?

Since September 2013, two years ahead of our objectives, Nestlé has been certified 100% sustainable by RSPO (including 'Green Palm' certificates). However, the group wishes to go further and work towards a more ambitious strategy by 2015, for at least 90% traceability to the mill (today, it is only 45%), and a 70% target in meeting our commitments in terms of responsibility. By the end of 2020, Nestlé has undertaken to no longer have any connection with deforestation.

EUROPE'S PALM OIL DEBATE

The EPOA steps in

After the sharp increase in demand for palm oil in the 1990s, Europe now faces growing calls for product reformulation to replace palm oil in foods with other oils and fats. This originally related to issues involving sustainability but was more recently extended due to concerns over nutrition. The main nutritional concern is the amount of saturated fatty acids (SAFA) found in palm oil.

Remarkably, the possibility of replacing palm oil with other oils and fats will highly depend on the requirements of the food product. Since all oils and fats contain SAFA – and SAFA is often the key to product characteristics – replacement of palm oil will not necessarily result in a food product with a better nutritional profile.

The political debate on palm oil taking place at different levels and in different European countries is often based on one-sided, biased or incorrect information. NGOs, politicians, journalists and scientists share opinions and have views that commonly address single issues. Among the outcomes of 'single issue solutions' are calls to ban palm oil, reformulate products or to label products as 'palm oil-free'.

Consumers across Europe generally have little knowledge of what palm oil is, how it is produced, why it is being used by the food industry and what its effects are on health. Food manufacturers and retailers have increasingly been adopting palm oil substitution policies, accompanied by 'palm oil-free' labelling.

Stressing the absence of palm oil on the pack gives the impression that its presence must be harmful in some way. With limited knowledge available and increasingly confronted with a 'palm oil-free' label, negative impressions of the ingredient can easily spread. Amplified by social media, the resulting public debate lacks context, is often emotionally driven and is short of fact-based information.

The debate is not uniform across Europe. In France, Belgium and Norway, concerns about palm oil and health were raised at various levels of government. This resulted in varying calls for limits or punitive taxes, with some hinting at the need for outright bans. In all cases, proposals were stopped, dropped or abandoned once specialist advice helped legislators to see the complexity of issues raised by such ideas and calls for limits or bans.

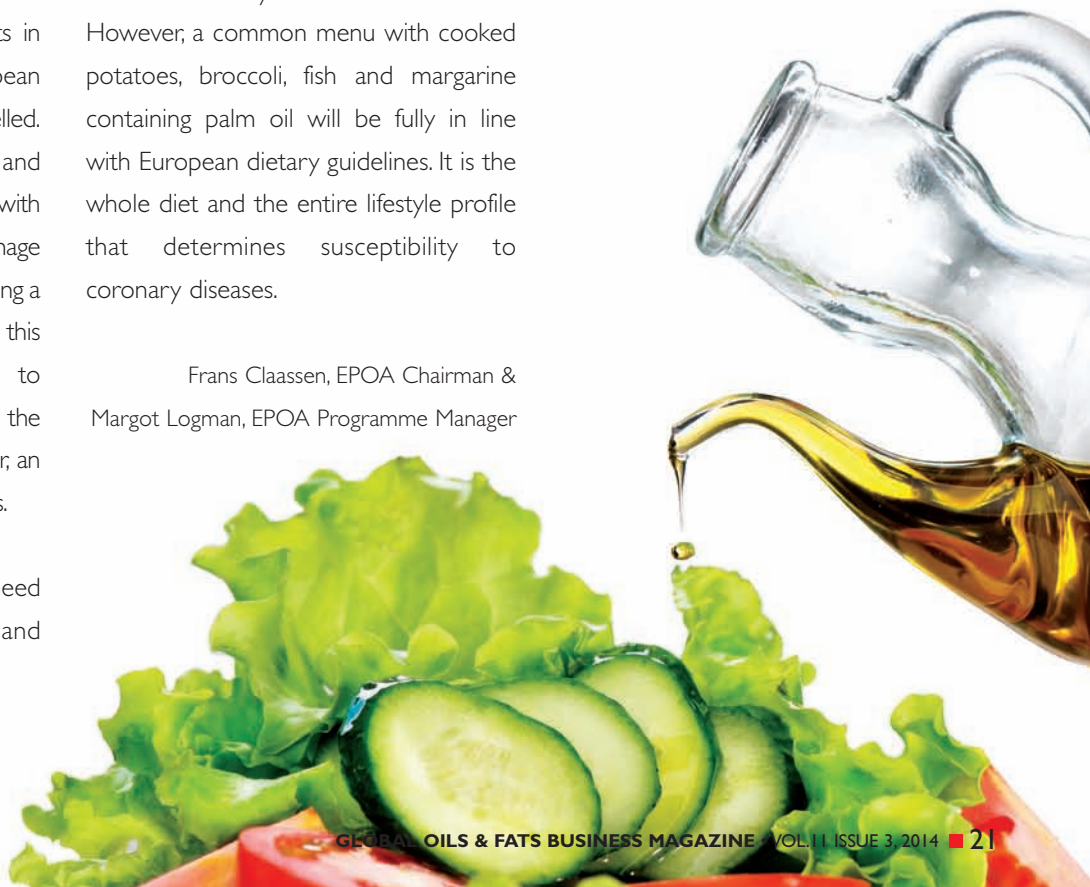
According to Food Information Regulation (EU) No. 1169/2011 on the provision of food information to consumers – which will come into force in December 2014 – the botanical origin of all oils and fats in food products sold in European supermarkets will have to be labelled. Understandably, food companies and retailers are reluctant to label products with an ingredient carrying a 'negative' image alongside competing packs boldly carrying a 'palm oil-free' message. The response to this competitive situation has not been to explain and educate consumers about the role of fats in a healthy diet but, rather, an increase in palm oil substitution policies.

More than ever, there is an urgent need to share fact-based knowledge and provide up-to-date information on the nutritional and functional contributions of palm oil to the European diet. We need to consider and communicate the actual effect of palm oil replacement on health, as well as the potential sustainability effects of substituting palm oil.

Most processed foods use a mix of oils and fats to fulfil textural and taste requirements, resulting in different nutritional profiles. The opportunity to replace palm oil with other oils and fats is highly dependent on the requirements of the food product – and replacement may not necessarily benefit consumers' health. A recent meta-analysis confirmed that replacing palm oil with other types of oils and fats leads to both favourable and unfavourable changes in the nutritional profile of a product (Fattore *et al*, April 9, 2014) and will not necessarily make it any healthier.

The same holds for the diet. A popular snack-based meal containing French fries and a hamburger containing no palm oil will not easily be recommended. However, a common menu with cooked potatoes, broccoli, fish and margarine containing palm oil will be fully in line with European dietary guidelines. It is the whole diet and the entire lifestyle profile that determines susceptibility to coronary diseases.

Frans Claassen, EPOA Chairman &
Margot Logman, EPOA Programme Manager



Redressing Views on Palm Oil

European Palm Oil Alliance (EPOA)

In 2012, in an effort to rebalance the health debate around palm oil in Europe, a group of refiners joined forces and established the European Palm Oil Alliance (EPOA). By working on a common agenda to build and share knowledge with key players in the supply chain, the members aim to redress the polarised view on palm oil. IOI Loders Croklaan, Sime Darby-Unimills, Cargill, Wilmar and the Dutch Oils and Fats Association, were joined in 2013 by the Malaysian Palm Oil Council, New Britain Oils and Unigra.

The EPOA believes it is on track to become the leading actor in the pan-European debate on palm oil and health. It is building the Alliance; partnering with national initiatives and European food trade associations; and creating a knowledge base on palm oil and health. It has created visibility around the issue through a website and the distribution of communication materials.

The Alliance is confident that its engagement programme with the European Sustainable Palm Oil Advocacy Group (ESPOAG) and National Initiatives; its collaboration with partners for the European Palm Oil Conference (EPOC); and its up-to-date and fact-based communication material will contribute to a more balanced European view on palm oil and health. By sharing fact- and science-based information on the role of palm oil in food; by discussing options for reformulation and their potential impact; and by promoting the benefits of certified sustainable palm oil, the Alliance believes it can rebalance the debate.

The EPOA's focus is on health and the role of dietary fat in health. Nonetheless, sustainability is an important issue and all EPOA members are committed to, and aligned on, the need to move to certified sustainable palm oil.

In addition to its goal to become the leading facilitator of the debate on palm oil and health in Europe, the EPOA aims to be a trusted source of science-based information on the topic. The first step was to set up an independent Scientific Advisory Panel. Professor Jean-Michel LeCerf of Institut Pasteur de Lille in France, Professor Sebastiano Banni of University Cagliari, Italy and Professor Gerard Hornstra (who retired from Maastricht University in the Netherlands) are its inaugural members. They help ensure that all EPOA communication is based on scientific information.

The EPOA's geographical scope covers Europe with special attention to France, Belgium, Germany, the UK and the Nordic countries. Stakeholders addressed are food manufacturers and retailers, food and health professionals, lipid nutrition scientists, European and local politicians, regulators and policy makers.

The EPOA aims to facilitate the debate and exchange of opinions at the European and national levels.

Regular roundtable meetings are organised with National Initiatives, European trade organisations and food manufacturers. These meetings help participants share information, concerns and opinions, and improve mutual understanding of the issues.

On Dec 9, 2014, the EPOA and partners – ESPOAG; the Roundtable on Sustainable Palm Oil (RSPO); and the Indonesian Palm Oil Customer Care Group – will organise EPOC 2014: 'Nutritional and Sustainability Challenges' in Brussels, Belgium.

The conference will give stakeholders a palm oil 'experience,' with the opportunity to learn more about the technological, nutritional and sustainability aspects of palm oil. The origins of palm oil, its use, as well as the nutritional, environmental and socio-economic aspects of palm oil, will be addressed in alternating plenary sessions and interactive breakout sessions. The conference will invite participants to join the debate with key stakeholders, including scientists, opinion leaders, policy makers and well-known business leaders.

In 2015, EPOA will organise a SAFA expert meeting in cooperation with the Dutch Oils and Fats Association. The proceedings will be presented for publication in a peer-reviewed journal and offered at EuroFedLipid 2015. International experts will be invited to join the debate to produce an aligned view on the latest insights on SAFA and health.

On March 20, 2014, the EPOA supported the ESPOAG event at the European Parliament. It was an excellent opportunity for leading experts to exchange facts and views on the sustainability and nutritional aspects of palm oil with Members of the European Parliament.

On June 29, 2014, at the ISSFAL conference at Stockholm, the International Expert Movement organised a debate among experts to assess whether it is time for governments to adopt a change in dietary recommendations on SAFA. Almost 170 experts in the field of fatty acids, metabolism and health were present. It was concluded that the new SAFA recommendations are still open to debate and that there is not enough evidence to revise current European SAFA recommendations in line with that of ANSES in France.

On Sept 17, 2014, at the EuroFedLipid Congress at Montpellier, France, the Italian scientist Elena Fattore presented the most recent meta-analysis on the effect of substituting palm oil with other oils and fats on validated biomarkers of heart disease. Her data showed that substituting palm oil with other fats produces both favourable and unfavourable effects and will not necessarily make a product any healthier.

Regional updates

France: On Oct 14, 2014, the French Alliance organised a symposium on palm oil, supported by the EPOA. At the event, Crédoc – the French Research Centre for study and observation of life and living conditions – presented data showing an average intake of palm oil in France of 2.8gm per day. This accounts for about 4% of the saturated fatty acid intake in adults. The limited contribution of palm oil to the SAFA intake of the consumer will counter several of the damaging messages on palm oil and health in France.

The French Alliance was also active in the effort to postpone the national tax proposal on palm oil (the 'Nutella Tax') to at least the end of 2015. In the French media, increasingly balanced articles are appearing with regard to palm oil. At the Salon International de l'Agriculture, held in Paris from Feb 21 to March 1, 2014, more than 20,000 visitors restored their view on palm oil. A French print campaign supported by the EPOA ran during spring and explained to French consumers what palm oil is made of, how it is sustainably produced and what its nutritional effects are.

Scandinavia: Work on rebalancing the debate is in progress. On April 27, 2014, Tine Sundtoft, the Norwegian Minister for Climate and Environment, openly stated in the media that banning palm oil is not a solution, saying: "There is no reason to ban palm oil. It is better to set standards for sustainable production of oil." But the debate continues, with strong voices on both sides generating healthy discussion.

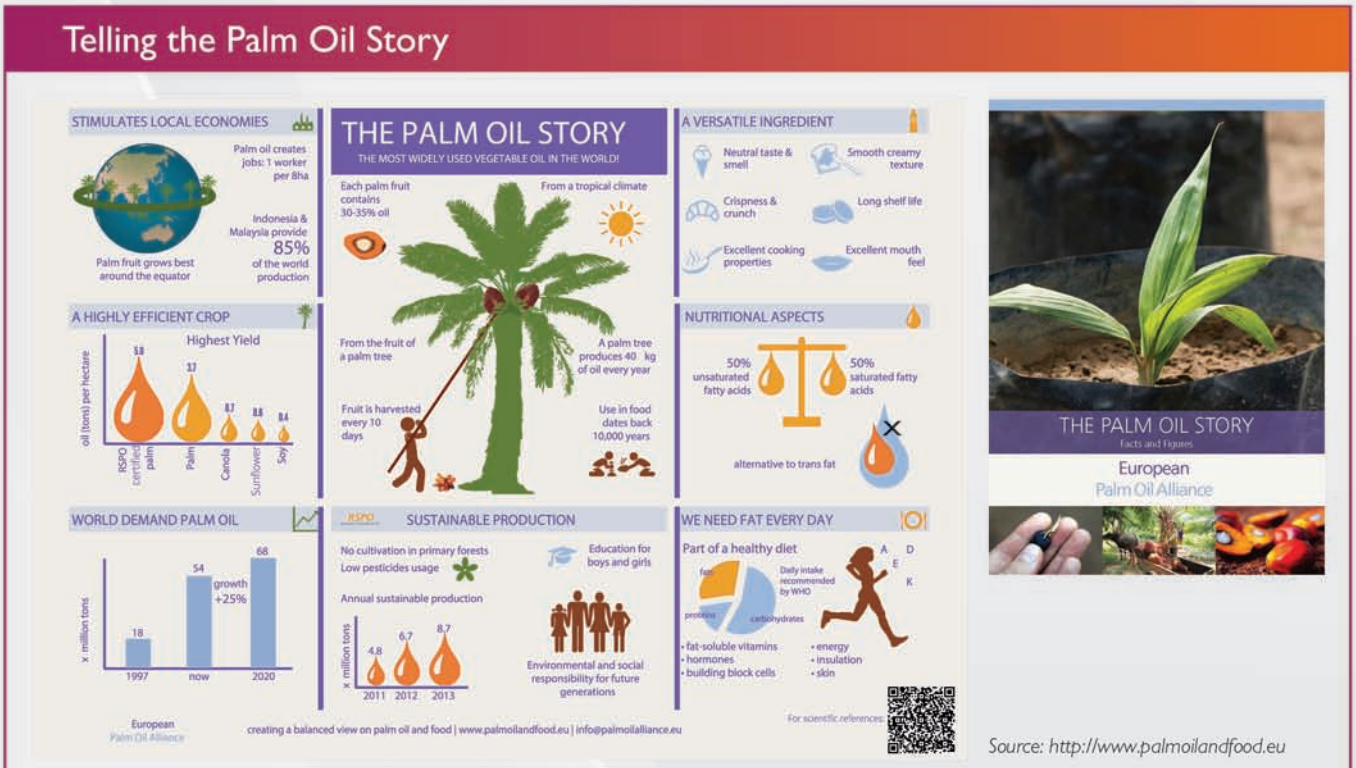
Denmark, Sweden & Norway: Local initiatives have resulted in newly-shaped alliances with clear objectives on uptake and use of certified sustainable palm oil. The Norwegian Initiative for Sustainable Palm Oil was launched in September 2014. By the end of 2015, the palm oil used in Norway has to be sustainably produced and certified according to RSPO criteria. The Swedish Food Federation launched an initiative on sustainable palm oil in March 2014. The Swedish Nutrition Foundation is conducting research on

scientific views on nutritional aspects of palm oil. The members have committed to using RSPO-certified palm oil by 2015. Danish retailers have communicated a similar initiative to promote sustainable palm oil.

Belgium: The EPOA supports the renewed Belgium Alliance on Sustainable Palm Oil that will increase dialogue in the French-speaking part of Belgium. It will provide fact-based communication material and other types of support.

In 2015, the EPOA will continue its efforts to engage stakeholders at all levels of the supply chain in Europe, and to address misconceptions on palm oil with fact-based messages. Special care will be taken to listen to the reasons why food manufacturers and retailers adopt palm oil substitution policies, in order to better understand their perspectives and to address the issues. The EPOA is keen to broaden its coalition. For more information, contact: *info@palmoilalliance.eu*

EPOA



Source: http://www.palmoilandfood.eu

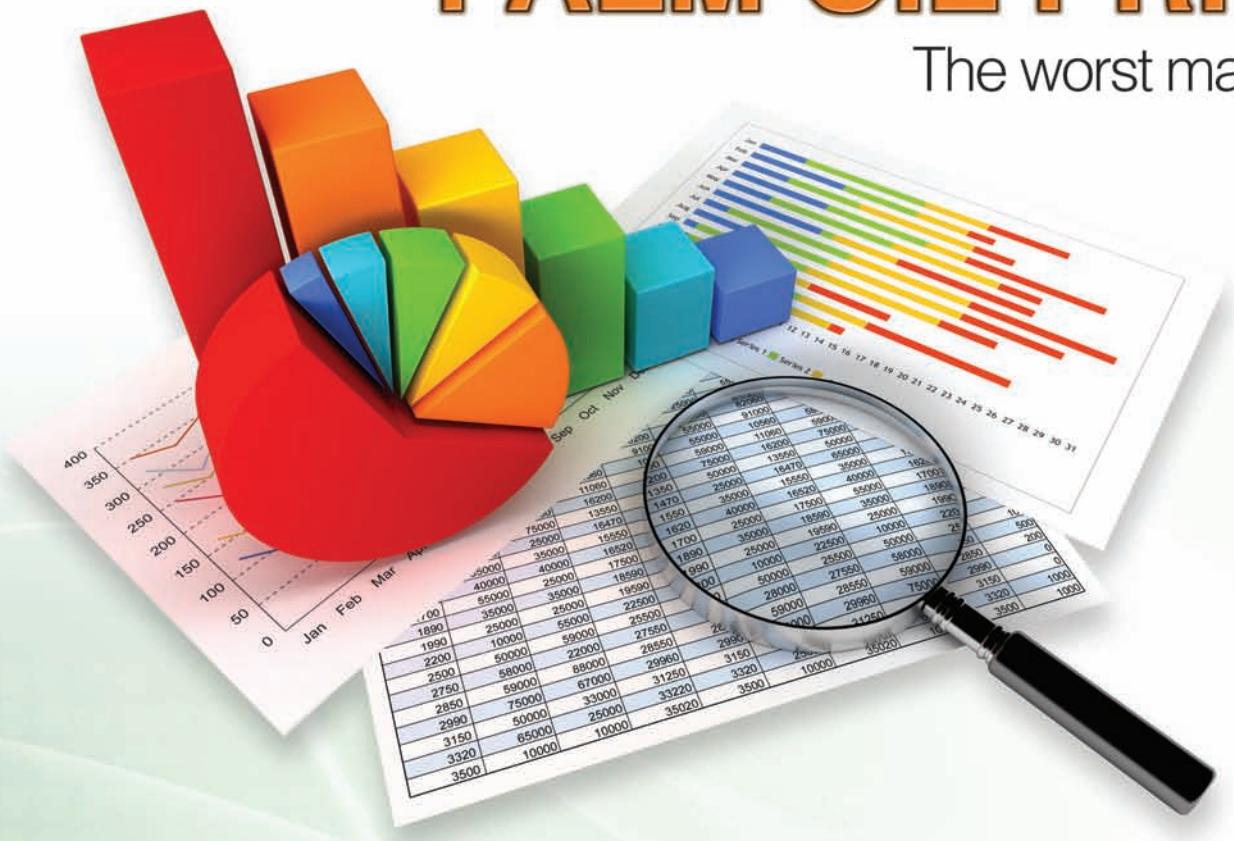
The EPOA supports the uptake of sustainable palm oil. It aims at rebalancing the debate in Europe by summarising available science-based knowledge into practical communication material. Several channels and types of communication material have been developed to close knowledge gaps on palm oil and health.

In March 2014, the EPOA launched the website *www.palmoilandfood.eu* to tell 'The Palm Oil Story'. It plainly explains that palm oil is a natural and versatile ingredient; is sourced from sustainable fruit; and can be part of a balanced diet. It provides relevant scientific references to underpin each statement, after checks by the EPOA Scientific Advisory Panel. The website is currently being translated into Norwegian.

The EPOA has also issued a 16-page brochure with facts and figures on palm oil, and an infographic telling the palm oil story at a glance. The brochure and infographic have been distributed to EPOA-members, partners and National Initiatives, and at several European symposia. The second edition has been translated into French and is being distributed in Switzerland and France.

TURNING POINT FOR PALM OIL PRICES

The worst may be over

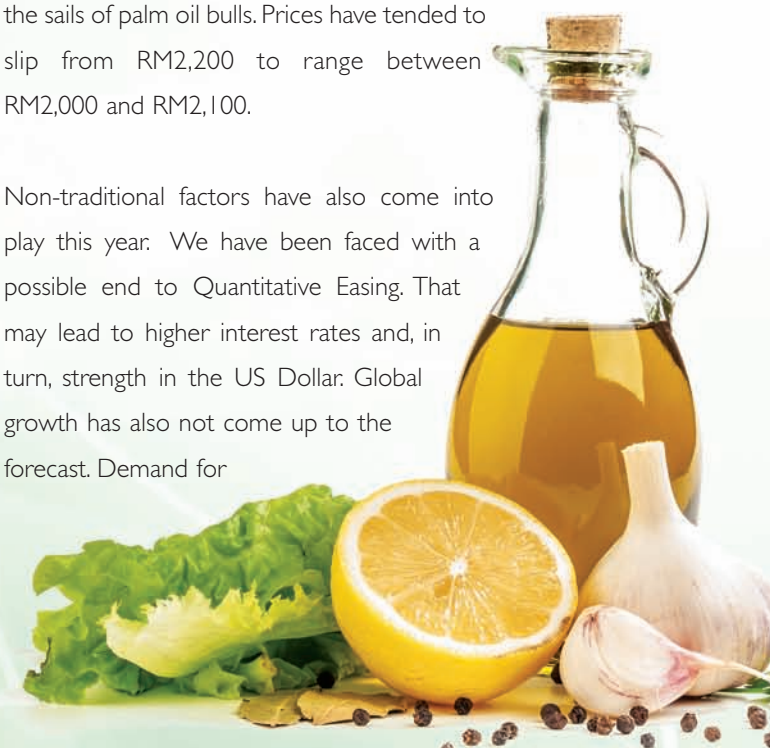


The non-appearance of the much feared *El Nino* thus far this year has made palm oil prices behave abnormally. It has also made the task of forecasters more difficult. The forecasts I made at the Price Outlook Conference on March 5 were quickly overtaken by events and had to be abandoned. I have laid the blame on the non-performance of biodiesel consumption targets by Indonesia and the non-appearance of a strong *El Nino* this year.

On June 26, I forecast that CPO prices would trade in a band from RM2,300-2,500 for the next several weeks, given normal weather. This forecast too was overtaken by events and was broken on the downside. CPO futures traded at RM1,914 on Bursa Malaysia on Sept 2.

Malaysia has since exempted CPO from export duty and that gave a bounce of about RM300 to the market. Palm oil bulls put huge faith on the recovery in prices, which appeared to be a way of helping smallholders whose cost of production was much higher at almost RM2,100. Since then, we have seen a minor collapse in crude oil prices, and that has taken the wind out of the sails of palm oil bulls. Prices have tended to slip from RM2,200 to range between RM2,000 and RM2,100.

Non-traditional factors have also come into play this year. We have been faced with a possible end to Quantitative Easing. That may lead to higher interest rates and, in turn, strength in the US Dollar. Global growth has also not come up to the forecast. Demand for



energy has been weak, leading to a decline of almost 20% in the price of Brent crude oil.

At the same time, we have had a period of over 12 months of excellent and trouble-free weather in major agricultural regions of the world. The US is harvesting its biggest ever crop of corn and soybean. South America is on course to plant massive crops of soybean over the coming weeks.

So where does this leave us in terms of prices? Will the bear market continue into 2015 or are we going to see stability followed by price recovery?

Since my last paper at Globoil India on Sept 28, I have noticed tell-tale signs which lead me to forecast a change from my normally bearish view this year on vegetable oil prices. Macro factors have deteriorated and many bearish factors have been thrown at the vegetable oils market. And yet prices have held remarkably well.

Production factors

Before I elaborate on the price outlook, let me discuss the fundamentals of supply and demand.

Palm oil: The biological Low Cycle for oil palm ended after 13 months, in February this year. The new High Cycle performed exceedingly well until August. September production was somewhat lower than August and hence, October production performance became critical. Would October exceed September significantly and achieve an annual peak?

Based on information at hand, it appears that October production remains good but will not exceed that of September, and that the August output will be the peak for 2014. It appears that the six-week dry patch of February-March 2013 is finally taking its toll. Palm oil production in Malaysia is now unlikely to get close to 20 million tonnes this year and the final volume may be between 19.6 and 19.8 million tonnes. My estimate is that the dry patch has taken out about 300,000 tonnes of this year's CPO production.

The performance in Indonesia has been worse than in Malaysia in relative terms. This is due to the longer spell of dry weather. Indonesian production may at best reach 30 million tonnes rather than my earlier projection of 30.5 million tonnes. The dry

spell in Kalimantan is entering its fifth month. This must affect production in 2015 but we will only know the damage around March or April next year.

Overall, palm oil production is not performing to expectations, which is taking some of the froth off production estimates. It seems probable at this stage to say that the High Cycle will come to an end around November this year. This is where it gets interesting from a market perspective. Palm oil production will not only enter its seasonal lean phase, it will also enter a new biological Low Cycle. Based on this, palm oil stocks are now likely to peak at the end of October and then gradually draw down, continuing through the first six months of 2015.

Soybean: Soybean plantings in Brazil have not begun well and are delayed. We must watch this situation closely. The extreme weakness in soybean prices appears to have discounted massive production in Brazil as well as Argentina. I have predicted since March that the new crop November soybean is destined to go below US$10 per bushel. However, the price went down to $9.05, which seemed to me to be excessive; this is why we saw a sharp bounce in recent weeks.

The next bout of bearishness will only come if the Brazilian crop looks like shaping up well; or if Argentina devalues; or if US yields are revised upwards to nearly 50 bushels per acre. In short, for the next several weeks, beans, oil and meal are likely to have bottomed out.

If *El Nino* develops in this part of the world, its flipside is excellent rainfall in Brazil and Argentina. While it will be bullish for oil palm, it will be bearish for soybean. If *El Nino* does not develop, it will be necessary to watch rainfall in South America very carefully this year. Parts of Brazil, admittedly the non-soybean belt, are in the grip of severe drought. We need to be very cautious before we discount a massive soybean crop in South America.

Sunflower seed: Production in the Ukraine and in Russia has fallen short of earlier estimates and plantings in Argentina are also below expectation. Overall in the Oil Year 14-15, sunflower seed production will decline at least 2.2 million tonnes. But demand for sunflower oil is very strong.

Rapeseed: Production in Canada is well below last year's record crop, but the EU crop is much better and a record. Overall rapeseed production will be almost unchanged. We have to see how the crop performs in China and in India.

Cottonseed and groundnut: Cottonseed production will be about unchanged, but groundnut production will be lower by almost 1.5 million tonnes – mainly on account of China and India.

Lauric oils: World production of palm kernel oil will be higher, although not as high as anticipated. Coconut oil production will be higher in the upcoming year.

Market developments

India: Something very significant is happening. Indian crushers are struggling to book export sales of Indian meal which has traditionally commanded higher prices than prevalent in the rest of the world. As a result, a greater proportion of the crush has to be paid out of oil prices. With current weak prices of palm oil

and soybean oil, Indian crushers are facing a difficult situation. Farmers will refuse to sell their oilseeds at low prices and crushers will not be able to run their plants. Domestic production of soybean oil will be smaller than in the previous year, at least until crush margins return. As a result, India is likely to continue to suck in larger imports of palm, soybean and sunflower oils. It will store domestically produced oilseeds and will front-load oil imports.

India's consumption of vegetable oils will be strong on account of low prices and the feel-good factor prevalent with the new government. I expect monthly imports to be on average at least 100,000 tonnes higher each month than in the previous year.

Will the government increase taxes on vegetable oil imports? As time elapses and as world prices stabilise and recover, the case for higher import duties in India weakens. Besides, the abolition of export tax on CPO by Malaysia and Indonesia has given a respite to the Indian refining industry. Overall, the chances of higher import taxes on palm oil and soft oils are today lower than previously expected.

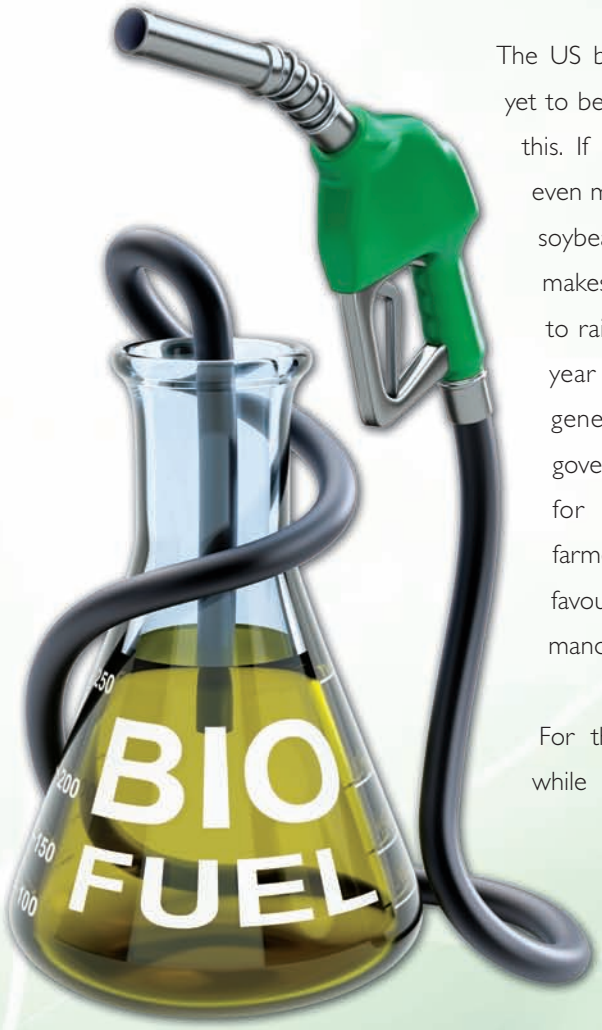
China: Stocks of imported vegetable oils have been declining to more normal levels over the last one month. China continues to import palm methyl ester. We must expect imports of soybean and other oilseeds to climb above expectation in view of low prices. The same goes for vegetable oil imports because rural China is still a price-sensitive market.

What will happen to the huge reserve stock of almost 5 million tonnes of rapeseed oil held by the State Reserve? A large proportion of this oil now desperately needs to be rotated or consumed before it reaches the point of no return. Bold decisions are expected but the process appears to be painfully slow. Will this issue be swept under the carpet once again?

China has changed the method by which it supports its farmers. It no longer buys perishable agricultural products at guaranteed prices but instead pays farmers the differential between guaranteed prices and market prices, if these are lower.

Energy prices: The recent fall in crude oil prices has lowered the price of gas oil and made biodiesel less attractive. Fortunately for vegetable oil producers, of the 29 million tonnes of oil and fats consumed for biofuel, almost 80-90% are covered by national mandates. So those quantities of biodiesel must be consumed regardless of price.

Discretionary and price dependent use is very limited. At current levels of gas oil price, discretionary blending demand has been almost completely lost. Yet the industry is very resourceful. Producers and traders are trying very hard, cutting margins and somehow managing to hold on to some percentage of discretionary demand.



In countries like Indonesia, it remains to be seen how earnest the new government is on the palm-biodiesel mandate. It makes economic sense for them to expand usage of palm-biodiesel even if PME is slightly more expensive than fossil diesel. The higher mandate in Brazil also helps to compensate for the loss of discretionary demand.

The US biodiesel mandate for 2014 is yet to be announced. A lot is riding on this. If the EPA raises the mandate even modestly, it will be a bonus and soybean oil futures will benefit. It makes sense for the US government to raise the biodiesel mandate in a year of low prices. We have generally found the US government takes such decisions for the benefit of American farmers and so the odds must favour at least some increase in the mandate.

For the reasons I have explained while speaking about India and on account of low prices, world food demand will be robust. I expect it to expand by 3.5-4 million tonnes in 2014-15 (Table 1). Given the loss of new discretionary blending demand, I estimate only a 1 million tonne increase in biofuel demand. It could be higher if the US mandate is increased.

Price outlook

I have assumed Brent crude oil will trade in the range of US$80 and $100 per barrel.

Palm oil: The Malaysian government's decision to abolish export tax on CPO was followed by too much optimism and the market clearly over-ran itself. Since then, prices have declined and palm oil has made itself more competitive. I believe BMD CPO futures have bottomed out and should now trade in a range of RM2,100 and RM2,300 for the next several weeks. After Dec 10, I expect BMD CPO futures to rise steadily as production declines begin to bite and stocks

decline. However, given the current macro-economic outlook, I do not expect a bull market. I expect CPO futures to be around RM2,500 by the time of the Price Outlook Conference next March.

Soybean oil: I believe soybean oil FOB Argentina will recover as the higher Brazilian biodiesel mandate from Nov 1 takes effect. Brazil will probably cease to be an exporter of soybean oil for the rest of this season. We are likely to see a level of US$750-800 FOB December-January. Chicago futures for the soybean complex may come under pressure if the Brazilian crop progresses well and if Argentina devalues. For soybean oil prices, most of the catch up will have to come from higher premiums.

Sunflower oil: I believe this is very well priced. Monthly demand and exports from the Black Sea are very good. The premium of sunflower oil to soybean oil will be maintained and will climb to exceed US$50 in due course.

Table 1: Global Incremental S&Ds ('000 tonnes)

	Oct 14 to Sept 15	Oct 13 to Sept 14
Soybean oil	+ 2,700	+ 1, 800
Rapeseed oil	+ 200	+ 400
Sunflower oil	- 600	+ 1,600
Groundnut & cottonseed oil	- 600	-
Palm oil	+ 2,000	+ 3,400
Lauric oils	+ 250	+ 300
Total Supply Increase	**+ 3,950**	**+ 7,500**
Total Demand Increase	**+ 4,500**	**+ 5,200**

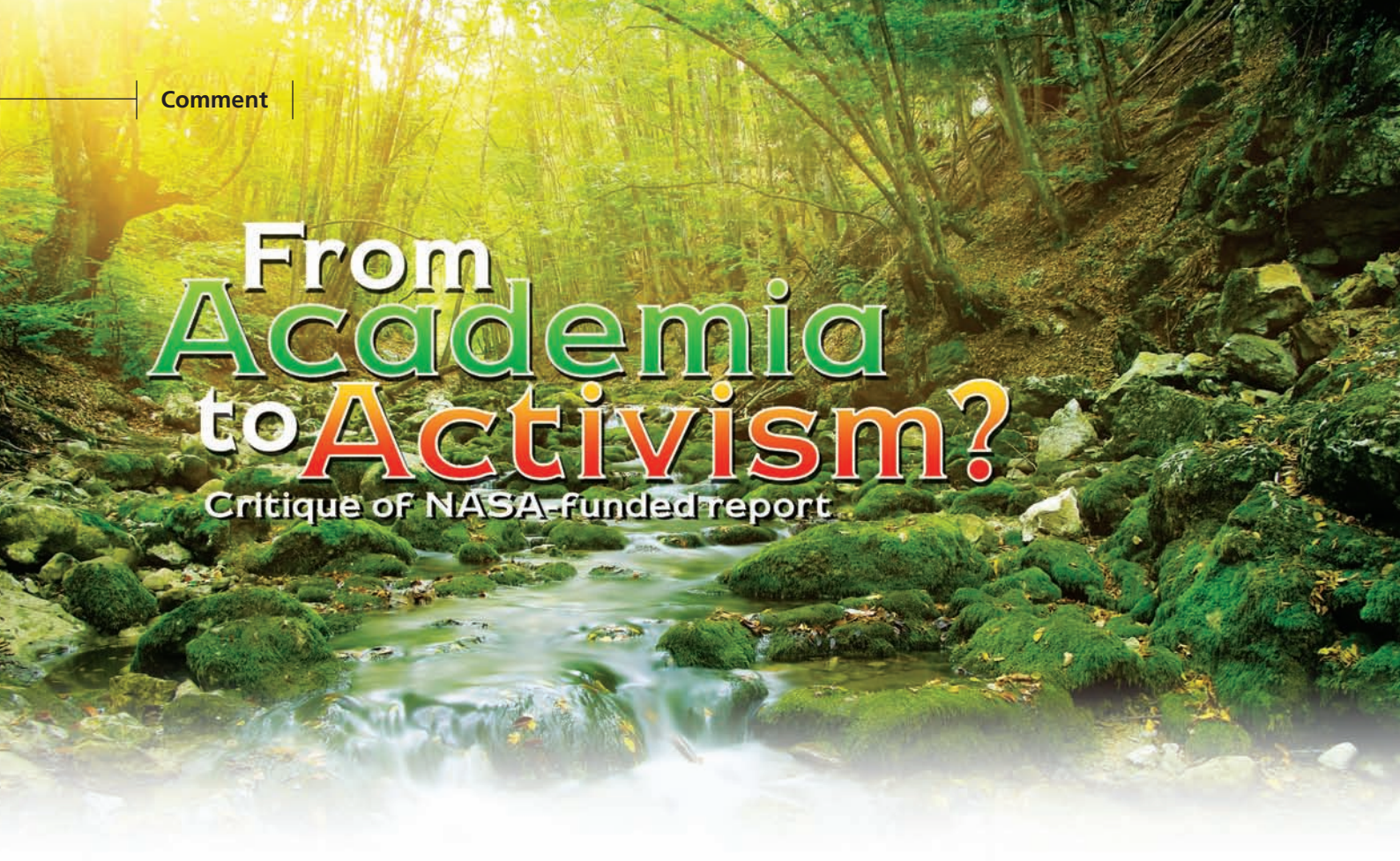
Source: Godrej International Research

Coconut oil and palm kernel oil: Production of CPKO continues to exceed demand and stocks are building up. I believe CPKO will eventually have to decline to the level of CPO because its non-edible and technical demand is limited. Coconut oil prices will also have to decline from current levels and will command a premium of US$150 over CPKO prices.

I believe the worst is over for oilseed farmers and plantations. The downside can now come only from massive South American crops; or from contra-cyclical jump in CPO production; or from a major world economic crisis. Barring these, the oil palm plantation and processing industry can look forward to steady demand and improving prices.

Dorab E Mistry
Director, Godrej International Ltd

This is an edited version of the paper presented at POTS KUALA LUMPUR in October.



From Academia to Activism?

Critique of NASA-funded report

Academics from Stanford University in the US recently published a paper that looked at the impact of oil palm plantations on rivers. The paper gained a surprising amount of international attention, given the obscure nature of the topic.

Much of the media attention was driven by environmental campaign groups; the paper adheres to the common activist bias against palm oil – in this case alleging that there is a new risk to freshwater supplies from plantations in Southeast Asia. While there is a high level of proficiency in the paper's technical approach, the overall methodology is flawed and deserves closer scrutiny.

The paper's first aim is to determine the differences between streams draining oil palm plantations and other types of land area, including intact forest, logged forest and mixed agro-forest. And this is where key flaws emerge.

A cursory examination of the literature indicates a number of studies that look at the impact of agricultural systems – particularly riparian vegetation management – on watershed health, including the factors determined by the Stanford authors as being significant.

There is also ample material on the impacts of clear-cutting in watershed areas on factors such as stream temperature. Yet the study does not attempt to disaggregate the cutting and clearing of the forest *per se* with the establishment of the oil palm plantation.

Forests are cleared for a variety of agricultural and silviculture reasons. In the paper, however, blame is placed squarely on oil palm plantations, thereby conforming to the narrative of environmental NGOs. This has to mean that policy or political concerns are driving the paper – and that science and proper research have become a casualty of this approach.

One of the most glaring omissions is any attempt to incorporate the impact of the lack of riparian buffer zones (which were noted) into the study. Nearly all the scientific literature notes the significance of buffer zone management to river health, and it is considered good agricultural practice to leave buffer zones – hence their regulation in most countries, including Indonesia.

The authors make a broad conclusion at the end of the paper, which has been supported by a number of environmental campaigners: "Our findings suggest that converting logged forests

and diverse smallholder agricultural lands to oil palm plantations may be almost as harmful to stream ecosystems as clearing intact forests."

Yet this conclusion misses the point. These forests are converted to oil palm today to meet social and economic needs. If oil palm plantations were to be banned tomorrow, these forests would still be converted to meet those needs, whether for sugar, forest plantations or other uses.

The paper, it appears, is a clear attempt to apportion blame for poor river health on oil palm, but not to other forms of agriculture or poor management practices. Furthermore, there is an attempt to generalise these results for oil palm across all watersheds, despite the specific nature of that particular watershed and the management practices contained within it.

Proxy campaigning?

Why is a group of US academics – funded by the US government – attacking agricultural developments in developing countries, in particular Southeast Asia? This is a critical question.

In some ways, the fact that this is happening is not surprising. The lead author of the paper is a radical left campaigner. Her career includes time spent with the Environmental Defence Fund, a US-based activist group, as well as the Bay Area Tropical Forest Network, a group that has constantly railed against palm oil in Indonesia and Malaysia.

Furthermore, environmental campaign groups have gained a significant foothold in US universities with a new round of lobbying against energy development – such as fracking and the export of renewable energies like natural gas and coal.

What is surprising is that there was a high level of support from the National Aeronautical and Space Administration (NASA) for the research. This is a US government-funded agency that is supposed to be focused on space exploration. A close look at the grants allocated for the research indicate that the objectives of the grant allocations are not scientific. Rather, they are political. They cover a range of policy areas such as community dynamics, land tenure, and social and economic benefits.

The grants fall under NASA's Land Change and Land-use Change programme, which falls under the broader remit of its Earth Sciences programme. This portfolio is broad and includes aspects of climate change around the world.

Questions must be raised over work that explicitly advocates against a particular crop on the grounds of environmental damage, when there are clear and obvious social benefits of that crop to people around the world; in particular, to millions of small farmers across Southeast Asia, often in under-developed rural communities. NASA should not be funding individuals to pursue a particular agenda against a crop – oil palm – that has such a track record of social and economic success in a country that is of strategic interest to the US.

NASA has in the past distanced itself from any work associated with its grants programmes. However, it must be held to account here. Political advocacy with the veneer of science should not be supported, nor endorsed. This paper crosses over from academia into activism; that it can be called science at all is questionable.

Finally, questions must again be raised about the US government's attitude towards palm oil. In May, President Barack Obama visited Kuala Lumpur with his message of hope and greater cooperation with the Malaysian people. He oversaw the signing of agreements that positively impacted the palm oil sector. But at the same time, he stood on a stage and openly attacked the palm oil industry. Not tolerating abuse any more, Malaysia's small farmers responded with an online video criticising Obama's comments – it gained over 30,000 views in Washington DC alone in less than 24 hours.

It's time for the US government to acknowledge the importance of palm oil, as well as the interests of small farmers, instead of being party to NASA-funded activism.

MPOC

SOUTH KOREA POWERS UP WITH PALM BIOMASS

Malaysian company produces pellets

Malaysian company Detik Aturan Sdn Bhd took the hard road to success in biomass downstream applications.

"It was tough," said Khairil Annuar Khalid, managing director of the agro-waste solutions company.

The company started in agricultural waste management in 2005, processing and converting agricultural waste into compost. In 2009, when the burning of agricultural waste became a hot topic, Detik Aturan had to find a faster way to convert waste. Their research led them to discover the use of pellets in Europe.

"We collaborated with the Universiti Tenaga Nasional (Uniten) Centre for Renewable Energy on research," said executive director Md Arfizal Md Ariffin. "We collected all the biomass from around Malaysia … paddy straws, rice husks, coconut trunks, oil palm trunks.

"We turned them into pellets and carried out combustion and firing tests with Uniten. From there, we found out which one was suitable to be commercialised. In 2010, we began our commercial activities."

Because paddy is seasonal, the company had to look elsewhere for a more reliable source of biomass.

"We found that the abundance of biomass in Malaysia was from oil palm. We did some research with empty fruit bunches (EFB). There were pellet mills then, but they were small-scale, producing something like 300 tonnes per month. And they used sawdust," said Kahiril Anwar.

"But back then no one knew what the characteristics of EFB were, so we had a tough time. They were very difficult to pelletise. But we worked very hard with engineers to find a solution."

Added Arfizal: "The pelleting system is not new. The only thing we had to do was modify it to suit our local biomass. We discovered that pellet-making is more like an art than science. There are those who bought high-grade machines but failed to make good pellets. And there are those who bought cheap machines but produced good pellets."

Demand for biomass pellets

Today, Detik Aturan runs a pellet plant in Tanjung Karang, Selangor, and has even worked out a deal with power

companies in South Korea. That, too, took effort because South Korea had a regulation against the import of oil palm biomass which was categorised as waste.

"Two years ago, we worked with our local South Korean partner. When the power plants there tested our EFB pellets and saw the potential to reduce the consumption of wood pellets, they (lobbied) their government to review the law," said Arfizal.

"They were facing an increase in the price of wood pellets from Canada and the US. So they saw oil palm pellets as the best substitute ... Finally, in December last year, the South Korean government allowed EFB pellets to enter the country. The big procurements will start in July."

According to the National Biomass Strategy, global demand for biomass pellets is forecast to reach 20 million tonnes by 2020. South Korean demand for wood and biomass pellets is estimated to reach five million tonnes by then.

South Korea's power companies have asked Detik Aturan for a commitment of 100,000 tonnes of pellets per month, but its output is currently at 5,000 tonnes per month. This means Detik Aturan needs another 20 pellet plants to meet that demand. Power plants in South Korea are already modifying their systems to use EFB pellets.

"But we have committed to them that, by July, we will provide 10,000 tonnes per month. By next year we will ... ship 100,000 tonnes per month," said Khairil Annuar.

"Now we are working with various plantations and investors. Our plan is to build another five to 10 factories over the next one-and-a-half years."

He said that, for supply of 100,000 tonnes per month, the value per year is almost half a billion ringgit.

The company has started building a second plant in Terengganu, with the next one planned in Sabah.

"In Terengganu, we are building the pellet plant inside a palm oil mill, and it will collect all the biomass from the surrounding mills. Currently there are five or six mills in the area, and all are owned by different companies." said Arfizal.

"So we have to meet with the various companies for supply. We are looking for long-term partnerships. For example, if a nearby mill has excess power, we will buy this from them."

Khairil Annuar added: "There's more awareness about biomass today. But the plantations are adopting a wait-and-see approach, because this is not their core business. They will wait until the market is mature.

"But we cannot wait. We have to make sure that our products are accepted by the world."

Source: The Star, March 24, 2014

This is an edited version of the report.

Reminiscing MISC

Early palm oil transportation

I am writing this at the request of my colleague, your usual correspondent Charles Barton, who is recovering well from a small eye operation. I have been asked to take a trip down memory lane and write about a Malaysian shipping company that I had the great pleasure to work for over 30 years ago, to consider recent events and their effect, if any, on the transportation of palm oil.

The formation of the Malaysian International Shipping Corporation (MISC) goes back to the late 1960s and early 1970s. The national desire to participate in shipping, supported by strong individuals and aided by Japanese war reparation funding, saw the emergence of an early liner service. The name of the first vessel was *Bunga Raya*, the Malay name for hibiscus, which grows prolifically in Malaysia and is the national flower.

While the government maintained a majority shareholding in the early years, the MISC board of directors reaped the benefit of contributions from a number of influential entrepreneurs,

including Robert Kuok. The company was generally regarded as operating on normal competitive shipping terms.

In 1973, coinciding with the spectacular growth of Malaysian palm oil and its refining industry, a strategic decision was made to enter the chemical tanker trade, but with emphasis on the carriage of palm oil. New building plans were studied and three 29,900 dwt vessels were delivered by Mitsubishi Heavy Industries over 1975. They were to be called *Bunga Kesumba, Bunga Sepang* and *Bunga Selasih.*

As fate would have it, the world economy soon entered a deep recession; while the vegetable oils market was relatively stable, the chemical industry was badly affected. The chemical tanker business at the time was dominated by a handful of Norwegians and Greeks, with the exception of the emerging London-based Panocean and Anco fleets.

Stolt-Nielsen then had a fleet of 13 chemical carriers plus about 20 ships, mainly time chartered to carry vegetable oils, clean petroleum and some chemicals. Odfjell operated a fleet of 12 ships owned by himself, Westfall-Larsen and Christian Haarland. Among the smaller owners were the likes of Transoceanic with six rather small ships, Ditlev Simonsen, Ole Schroeder, Eurochem and Steuber.

Panocean (owned by P&O and Ocean Trading & Transport) were operating a fleet of eight new 25,000 dwt vessels as well as two more elderly vessels. Anco, now controlled by Tate and Lyle, owned and operated 12 fairly new parcel tankers.

It was inevitable that a dialogue would ensue between MISC and the major owners. In September 1975, a joint-venture company was formed between MISC and Panocean, responsible for the marketing of their respective vessels in Southeast Asia. In 1976, Panocean and Anco merged to form Panocean-Anco and the MISC ships continued operating in this pool.

I was then sailing as a ship's captain in the Panocean fleet, but had suggested a system for an exchange of personnel whereby ship's captains could take spells in the office operating ships, while operations personnel became better acquainted with the ships. As luck would have it, this led to me being asked in 1979 if I would accept the position of operations manager of the new joint venture in the Kuala Lumpur office. I readily accepted and, along with my young French wife and two very young sons, we became 'expats'.

While the three 29,900 dwt MISC vessels were able to carry a limited amount of IMO 3 cargoes, the bulk of their life was spent hauling crude and refined palm oil into Europe, and caustic soda solution under contracts from Europe and/or the US into Australia.

Contracts were made with the Sabah Land Development Board and East Malaysian Oil Palm Association for the shipment of crude palm oil (CPO) from the ports of Tawau, Kunak and Sandakan.

MISC helped pioneer the change of carriage from the deep tanks of dry cargo ships into the coated cargo tanks of their parcel tankers. The ships completed their loading of CPO from the Indonesian port of Belawan and then the Malacca Straits ports of Port Klang and Pasir Gudang, with rotations to suit draft restrictions and cargo availability.

With mainly Panocean personnel taking up the senior positions of master chief engineer and first mate, it did not take long for young Malaysian officers to cut their teeth and replace the Europeans, leading to a total Malaysian complement. Many went on to very successful careers both afloat and ashore within the chemical tanker trade, and also into the chartering and/or broking world.

When Stolt-Nielsen acquired the Panocean-Anco fleet in 1983, the Mispan joint venture was dissolved. MISC, now courted by Canadian Pacific, entered another joint venture agreement. Thus my three memorable years working alongside MISC colleagues in KL came to an end. But I never lost interest in following the progress of the company and the people I had grown to know so well and respect.

I am writing this at my parents-in-law's house in Nantes, northwest France, where by an extraordinary coincidence I found a copy I had sent them of *Berita MISC* dated July-September 1980. It lists the MISC top management at the time I was there. The Executive Chairman was YM Tengku Tan Sri Datuk Ngah Mohamed; the Managing Director was Mr Leslie Eu; the Director Operations was Mr Billy Tan and the Director of Finance was Mr JK Seth. The centre page featured that year's cross-country run and the Kelab Sukan MISC prize-giving event (see photos). I am proud to say I was Number 115, finishing first. The ladies set off well before the men, and could not be caught up with!

Working at MISC gave me the opportunity to become more familiar with the palm oil trade and its refining industry, as well as to visit plantations and ports across the enormous geographical area of Peninsular Malaysia and Sabah. This stood me in good stead when I returned to London with Stolt-Nielsen in 1990 where, among other duties, I was responsible for the chartering and operations of regional ships then transhipping over one million tonnes a year for distribution to ports such as Liverpool, London, Hamburg, and Brake.

I became a supporting member of FOSFA and a ship owner's representative helping to draw up revisions to the various FOSFA shipping documentation, as well as a member of the Shipping Terms Working Group, in the negotiations to prevent full dedication of ships to the carriage of oils and fats.

Moving on

In Malaysia, a more experienced indigenous and ambitious parcel tanker team was pushing the MISC Board for new building programmes and more sophisticated vessels. The period 1989-1990 saw the delivery of four 29,900 dwt stainless/coated IMO 2/3 vessels with 35 pumps, as well as two 16,900 dwt coated IMO 2/3 vessels. Now operating independently for the first time, MISC entered the real chemical carrier trade.

Further orders were placed for two 32,000 dwt part-stainless/coated IMO 2/3 vessels each with 34 pumps, for delivery in 1997. This led to a further delivery in early 1999, followed by an additional four sister ships at regular intervals into 2000, making a total of seven of these larger vessels, and other smaller ships followed for more regional trading.

In May 1998, MISC bought the shipping assets of Konsortium Perkapalan Bhd (KPB). In a parallel deal, state oil and gas company Petronas injected its LNG shipping business, Petronas Tankers, into MISC in exchange for a majority stake in the company.

Under the deals, MISC acquired the PNSL shipping fleet from KPB for a cash payment of US$220 million, comprising US$55 million for the former Pacific Basin Handy size bulkers and US$165 million for 11 mixed vessels and a 51% stake in three LNG carriers. It also absorbed US$311 million of KPB's debts and acquired Petronas Tankers for US$1.58 billion (on basis of US$1 to RM3.8).

Petronas acquired 859.6 million new MISC shares valued at RM6.96 each and

increased its stake in the company from 29.34% to 62.01% with the sale of Petronas Tankers. The MISC fleet then consisted of 130 ships with more rationalisation to follow. The company moved premises from its shady white-walled office block in Jalan Conlay to the former Petronas headquarters in the Dayabumi Complex. It seemed to us ex-employees that, in effect, MISC had become a subsidiary company of Petronas.

In the years that followed, further new building programmes and ships bought off the stocks were acquired. At the end of last year, the MISC chemical tanker fleet consisted of 27 ships with an average age of only seven years. However seven of the ships were around 15 years old, while the rest were a mixed bag of quite sophisticated ships less than five years old, albeit with a very broad range of deadweight size.

The LNG and tanker business has proved successful. However, despite the further ordering of chemical tankers of different sizes and class, the results have not been satisfactory over the years. Unsurprisingly, the company now appears to have decided to divest itself of its chemical tanker tonnage, to concentrate on the more lucrative core business of gas and oil.

What does this mean for the palm oil trade and to the personnel, both afloat and ashore, who manned those ships and operated and fixed them?

The more modern chemical ships are being sold to first class owners/operators such as the United Arab Chemical Carriers and Sinochem. There should be little effect, as these companies have not featured much in the carriage of edible oils, but will do so if/when they have suitable space and positioning.

The good news is that the vessels that will definitely feature in the palm oil trade are the seven Korean-built 32,000-33,000 dwt, IMO 2 part-stainless/coated, 35 pumps/tanked ex-*Bunga Melati* class ships under Wilmar. This has to be seen as a positive sign for the tropical oil trade, especially the refining industry, as these ships are very flexible for their speciality grades.

It reminds me of several moments in my own life, faced with a similar dilemma, with a family to support, having to move (again), but determined to seek opportunities by following the ships and the trade which will always need experienced personnel. Similarly, I believe there is good news for Malaysian palm oil interests for the following reasons:

1. The manning of the ships acquired by Wilmar, as well as others, will hopefully be resolved by re-employing the very seafarers who have been operating them to date.

2. There may also be opportunities for shore-based personnel assimilated in the takeover.

3. It is positive for Malaysians that the name of the Kuok family brings real commercial, rather than quasi-political, entrepreneurial skill to their future.

4. There have been strategic moves by Wilmar to invest in infrastructure in the Black Sea by acquisition of storage ventures with local companies in the Ukraine.

5. There is long-planned investment in production and palm oil refining facilities in Indonesia, Sabah, the Philippines and Vietnam.

6. There is long-planned investment in competitively priced ship-building in Vietnam.

7. The mix of the present Wilmar fleet will be strengthened by the addition of these ships.

8. The last and probably most optimistic note for the palm oil industry is that the name 'Kuok' is still associated with the ships. Whereas the senior Robert was involved in the early formation of MISC and its strategic entry into the transportation of palm oil, the young Koon Hong is the driving force behind the Wilmar Group.

Captain Ken Tree
KTR Maritime Consultants

MARGARINE VENTURE IN KARACHI

Work on a new plant

Early in 1988, I was invited to join an international team to carry out a review of the Nigerian Oil Palm Research Institute (NIFOR). The project was funded by the World Bank and involved three weeks of intensive work centred on Benin city, followed by two weeks in The Hague for the preparation of an agreed report.

Soon after the project was completed, I was experiencing arthritic pain which led to hip replacements in 1989. I was 67 years old and decided it was time to give

Figure 1: Shows a team member reviewing a small holders plantation

up business travel, which had involved up to three months a year over the past 20 years. In future, I would carry out desk-bound projects only.

In April 1989, one of my former colleagues, resident in Karachi, asked if I could help to find machinery for producing margarine at 2 tonnes per hour. Requested by Habib Oil Mills (HOM), it had to be second-hand to avoid the tax imposed on new machinery imported into Pakistan and to minimise the cost of a new venture. This seemed to be the type of project I was looking for.

Two or three years previously, I had visited HOM during a World Bank project on the oil processing industry in Pakistan. I had formed the opinion that they had good facilities and competent technical staff. Their existing business was to produce Vanaspati (a shortening of firm consistency) and distribute it throughout the country. For this purpose they employed more than 500 salesmen. Their concept was that this staff could collect orders for Western-style margarines and bakery fats at no additional cost.

While working in London, I had got to know an engineer retired from a large margarine manufacturer who had set up a niche business of buying old factory plant, refurbishing it to a good standard and selling it on. A few days later, Mr Siddiqui, technical director of HOM, and I went to Liverpool to meet engineer, David Ross who had retired from a large margarine manufacturer and to inspect a redundant margarine plant in a factory that had relocated to London. Figure 3 shows the disused margarine plant *in situ* in the derelict factory, and the replacement parts needed to put it into working order. Mr Ross had seen the plant in operation shortly before it was shut down, which gave us confidence that it would be suitable. I left the other two to their commercial discussions and returned to London.

Figure 2: Miss Sophie from NIFOR'S Public Relations Department assisting me to some relaxation during a rare hour of free time. Three weeks in Nigeria were followed by two weeks in The Hague, Netherlands for the preparation of an agreed report.

A few days later, Mr Siddiqui sent a fax: could I advise on a suitable layout for the proposed margarine factory? While working in London, I had been involved twice with a technical draftsman and a bakery technologist in preparing the layout of a shortening plant needed for our growing business. The details were easily thrashed out in two afternoon meetings and a few telephone calls. Based on this experience and after discussion with Mr Ross, I proposed a layout for Mr Siddiqi (Figure 4).

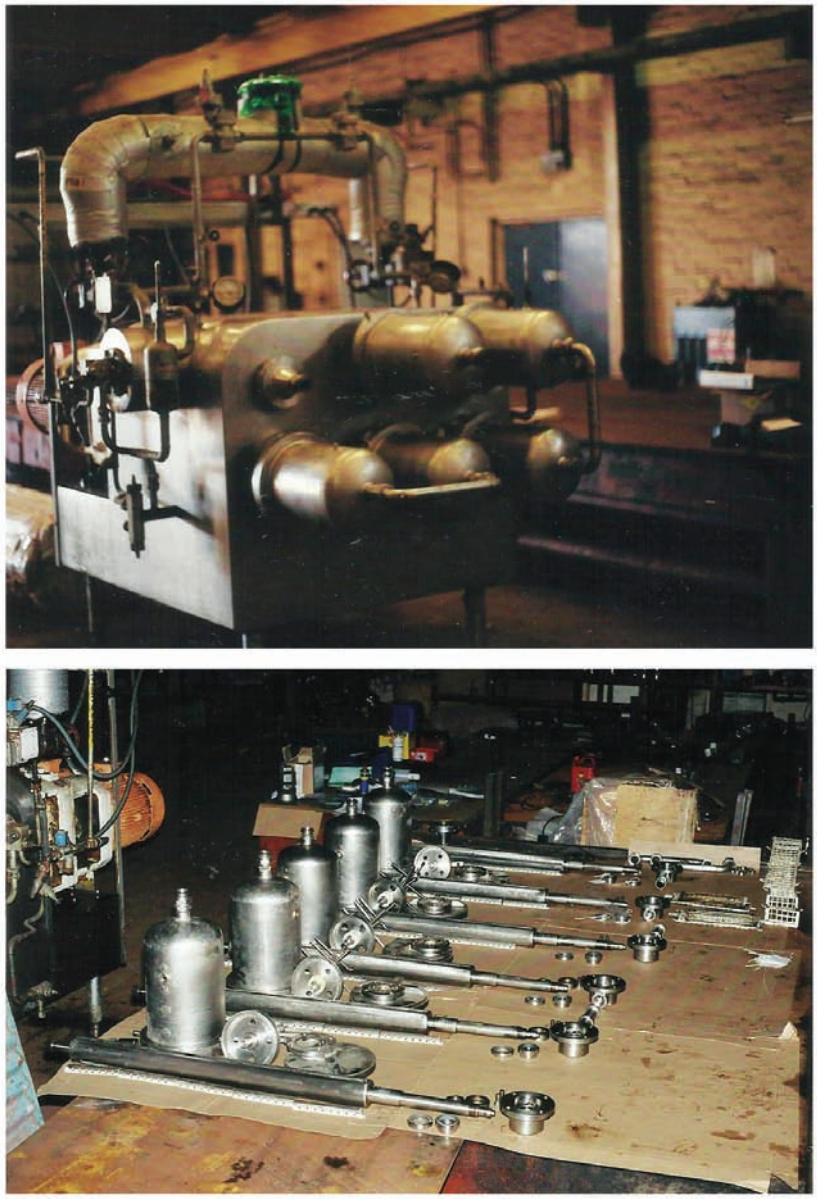
From my previous experience, I had found an unsatisfactory feature of the standard plant was that readings of gauges and

adjustments of valves were made at several points. The operator could not at the same time observe the effect of his adjustments. I had therefore designed a panel which brought all the controls and gauges together at the front of the plant, and included a temperature record at the product exit. This proved valuable as a quality control of correct operating procedure and for fault finding. I persuaded the HOM management that the additional cost was well worthwhile.

Figure 5 shows the control panel of the Karachi plant. The empty space on the right-hand side is for a six-point temperature recorder on order. For illustration, Figure 6 shows records obtained in our London plant. A regular steady line indicates normal operation and the exit temperature indicates that the desired proportion of high melting components is present; in other words, the formula set for the blend is being followed. When either line becomes irregular, a cause needs to be found.

The first chart in Figure 6 shows straight lines followed by irregularity. There had been a blockage in one of the ingredient feeds. The third and fourth charts show the effect of irregularity in the refrigeration supply. The term A is for the chiller unit, while B is for the texturising unit.

Figure 3: Machine at the disused margarine plant

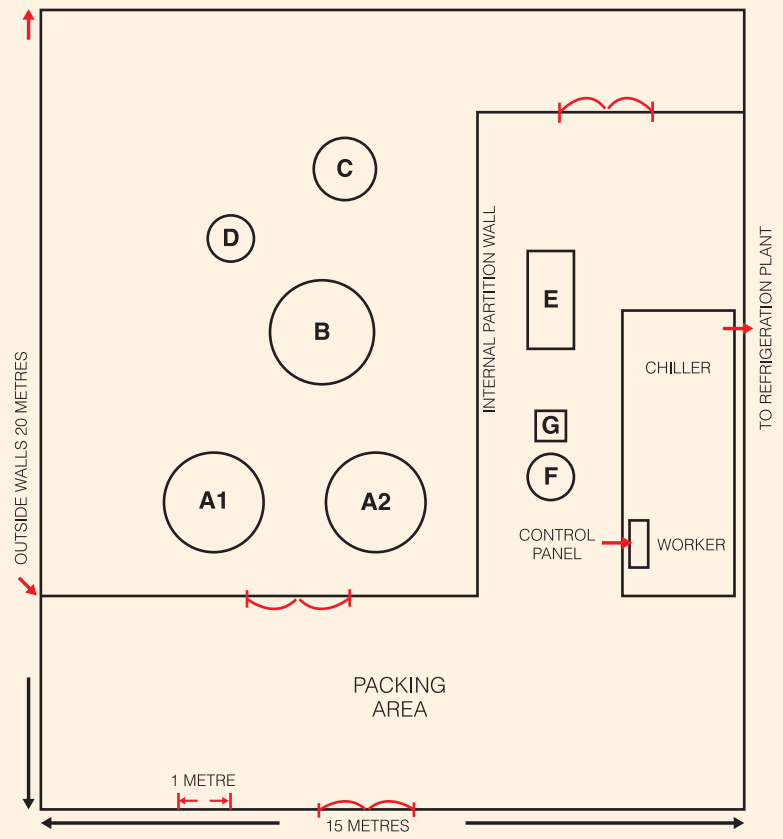


The plant was to be supplied on a skid platform fitted into a standard ship's container, complete with pipework and electrical connections ready to connect on site.

The following summarises general advice provided with the layout:

1. All tanks, pipework are to be of stainless steel with sanitary fittings.

Figure 4: Layout of proposed margarine factory



Identification of Plant Items

Notes: A1, A2 2,000 litre tanks, slow stirrer, heating coil
B Emulsion tank - 2,000 litre heated jacket propeller stirrer with variable speed
C Tank for aqueous phase 400 litres. Stirrer to disperse milk. Heated jacket
D Tanks for emulsifier 400 litre - heated jacket
E Pasteuriser heat exchanger
F Small feed tank for high pressure pump G

Figure 5: Control panel of the Karachi plant

2. Oil pipe lines should be laid on a slant so that they could be drained at the lowest point at the end of the day's production.

3. The processing area is to be up to fully cleanable food hygiene standards.

4. Everyone must wash hands with germicidal soap on entering the processing area.

5. The process tank area is to be separated from the production area.

6. A gantry is needed to provide access to the top of tanks.

In response to the layout proposal, I was contacted by the architect in Karachi who was supervising the necessary building operations. The space available was different from what I had indicated. There would be problems manoeuvering the skid platform into position. There ensued a dialogue by fax and telephone calls to resolve the problem. Mr Ross was meanwhile engaged in separate discussions on the acquisition and installation of the refrigeration equipment required.

There was a tight timetable for the proposed start-up. In preparation for this, I was asked to suggest some suitable fat blends for processing into bakery fats and margarines, including a puff pastry margarine, a

specialised product. I was also asked to advise on analytical methods to be used by the quality control laboratory.

So far so good. All this was desk work, based on my experience. Then I received an invitation to come to Karachi and start up the plant. It would be ready in mid-January. This went against my decision not to undertake any more projects in the field, but how could I refuse?

Back on the ground

In the event, start-up was postponed until mid-February and I arrived with a visa for 10 days. I was met at the airport with a car and driver (Figure 7) who was to look after me during my stay. The traffic on the roads showed an interesting variety. Highly ornamented public buses (Figure 8) mixed it with camel carts (Figure 9). Later I saw technical equipment brought to the factory by donkey cart (Figure 10). My new colleagues insisted on photographing my inspection of the plant. Figure 11 shows the margarine unit, while Figure 12 shows the control panel. The packing machine for margarine blocks is shown in Figure 13.

In the next few days, we produced bakery fats, and table and pastry margarines. Then a problem arose with one of the back-pressure valves. A

Figure 6: Records obtained at the London plant

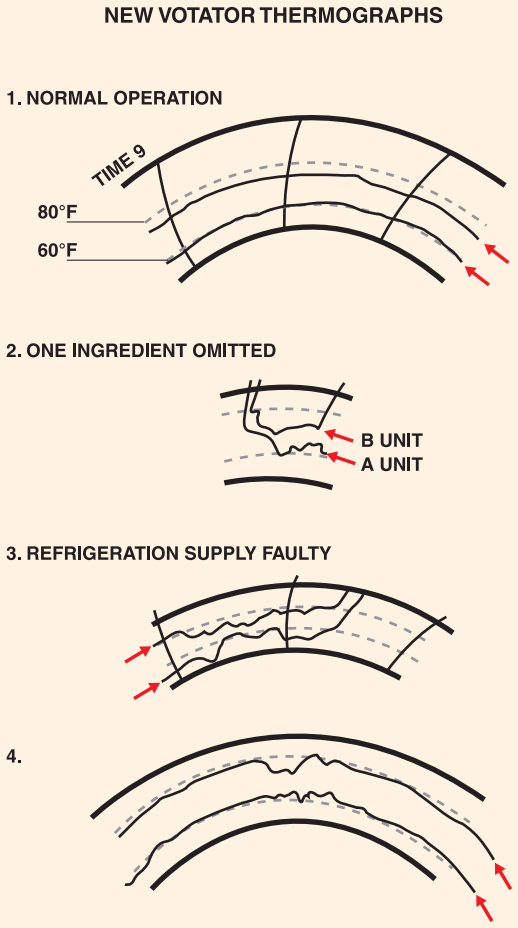


Figure 7: Car and driver

Figure 8: Public buses

Figure 9: Camel carts

Figure 10: Donkey cart

Figure 11: Margarine unit

rubber washer in the valve broke. It turned out to be a rather unusual shape (Figure 14) and I anticipated replacement could be time consuming. The plant was Danish, from Gerstenberg and Agger, and they could put a valve on an early flight. However, early next morning, one of the factory staff went to the local market and by mid-morning returned with the required article, much to our surprise and delight.

We wanted to get some practical tests done on our experimental product. Together with senior managers, we assessed the table margarine. It was readily spreadable on

Figure 12: Control panel in place

Figure 13: Packing machine for margarine blocks

Figure 14: Rubber washer for back-pressure valve

bread, had a satisfactory feel on the palate, and good flavour. We had added a reputable propriety butter flavour. For the bakery products, HOM contacted one of their regular customers for bakery fats and I provided ingredient formulae and process methods as used by my colleagues in the test bakery in my London laboratory.

Two days later, the entire board of directors assembled in the board room to view the products. I requested a sharp knife and cut the cake and pastry through the middle. We could assess the height and internal structure and they were very satisfactory (Figure 15). The products were cut up so that we could all assess taste and texture on the palate. They were consumed with approval. I brought some of the table margarine back to London and it was consumed over the next week with general approval.

The final event a few hours before my London flight was a group photograph in front of the margarine plant.

Figure 15: Testing the bakery products

Figure 16: With the full HOM team

Everyone, from the owner and managing director to the operators who had the task of handling barrels of product, was included (Figure 16). To my surprise and delight, I was presented with a gold chain necklace for my wife.

Over the following months, I returned to my desk to advise on various problems of plant operations and quality analysis. The marketing of the new products proved a huge success and within two years, we were asked to find a second plant so that production could be doubled! Mr Ross was able to find similar machinery and, apart from carrying out a formal inspection to satisfy the Karachi bank which was providing the finance, I was not involved. HOM installed the plant and put it into operation based on the experience they had gained.

Kurt Berger
Food Technology Consultant, UK

The Campaign Trail

Make the most of it

One of the biggest questions I get asked on the business of building a brand is: how do you change perceptions? It's an important question generally, but it's an even more important question in the oils and fats business, particularly palm oil, when there is a desire on the part of producers to change perceptions, from negative to positive ones.

One answer (and it's a popular one, too) is: have a campaign.

These days, campaigning is in many areas not even a discussion point. It's a standard practice. If you want proof, just take a look at political campaigns, particularly when there's an election coming; this is especially the case for aspiring presidents of the US.

If you want an insight into this, I strongly recommend the 1974 book *All the President's Men* by Carl Bernstein and Bob Woodward, which tells the story of Richard Nixon and the Watergate scandal. In terms of this article, it gives insights into the organisational structures for a political campaign (such as CRP, also known as 'CREEP' – Committee for the Re-election of the President), as well as how they operate. In a word: energetically.

That's the effort and organisational side. Next is the obvious question: what about the financial cost? Make no mistake, campaigns cost money. And if it's a big political campaign (as they always are in America) the figures get quite mind-boggling.

If you want details, the US political system is quite handy as, by law, the Federal Election Commission needs to be informed of quantities of monies received as well as outgoings. The website *www.fec.gov* has loads of interesting data, such as the fact that Barack Obama's team spent US$59 million in just one month (that was July 2012). For a wider perspective on campaign fund-raising and spending, the website *www.opensecrets.org* has a comparison of the 2012 US election race between Obama and Mitt Romney (Box 1).

Box 1: US Presidential Race, 2012

	Obama	Romney
Cash raised	US$716 million	US$446 million
Overall spend	US$1,107 million	US$1,238 million

Source: www.opensecrets.org

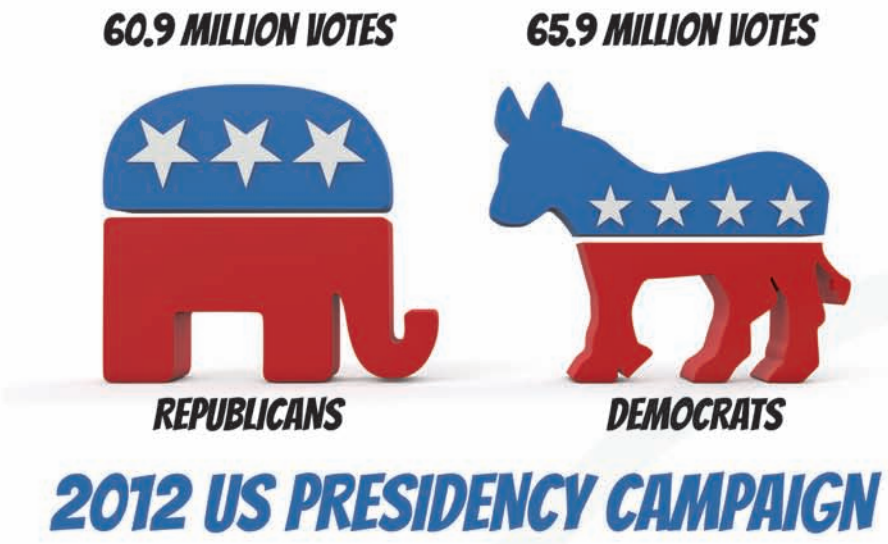
Obviously there's a slight complication in the accounting about other income sources besides fund-raisers to explain why, in both cases, the overall spend was higher than the cash raised. Despite that, there are a number of useful insights to be gained:

1. Campaign spending is really big!

2. A total higher spend does not guarantee a win in the votes. Romney's team had the overall bigger spend but pulled in 60.9 million votes, compared to the Obama team with 65.9 million. But Obama's team still had to spend over a billion dollars in order to scrape a win by a few percentage points. The 2012 election was far from a famous landslide victory.

3. Not spending big appears to be not an option. If you spend big amounts of cash, it guarantees absolutely nothing come Election Day But you've got to spend large amounts simply to be in the game. When it comes to big campaigns, the 'if you don't pay, you can't play' rule applies.

   I got an interesting insight into this at an oil and gas conference where a CEO told me how much his company had spent on its very large booth. When I asked what kind of sales increase he expected to recoup from this investment, I got the reply: "Oh, it doesn't work like that. It's more a question of 'if we're not here, then people will think there's something wrong'."



With election campaigns, big spending has become totally standard behaviour in many countries. So much so, that we take it for granted that presidential or prime ministerial elections and re-election campaigns are about 'big bucks' and lots of media focus, and that this has always been the case. Well it hasn't.

America's first president, George Washington, was simply asked by some of the founding fathers after Independence was declared in 1776, if he'd be prepared to do the job. And he agreed. All they did was have a get-together in a room and have a vote. No campaigns, no media circuses and no public appeals or banging of the drum. And it was the same story with the second president, John Adams, and so on for many decades.

But now it's different. Now, it's widely accepted in near-enough all democracies that a person who considers himself or herself the best person to do the job of president or prime minister needs to go on TV, give talks in person to 'live' audiences, wave flags, kiss babies, wear the T-shirt (or baseball cap nowadays) of the political party, and more recently take to Twitter, YouTube and Facebook.

The question is: is a big campaign optional? For big democracies, in the modern age, there's no choice for politicians. They know that they fly or die by their mass media, and social media, level of activity and effectiveness. Also, they know that apathy and disinterest are running at an all-time high with so many people not even bothering to vote (the 2012 US election had a 58% turnout) and enjoy the democratic freedom that their forefathers sacrificed so much in order to attain.

An effective campaign

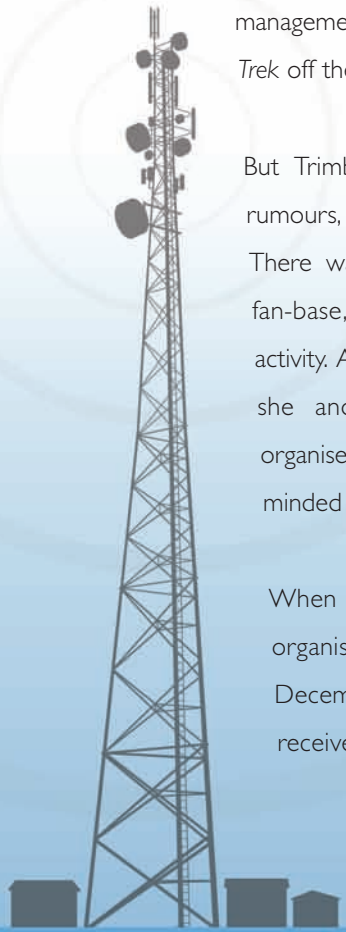
On top of all that, there is technology: the Internet means that people have

shrinking attention spans, and if the message isn't quick and simple (and with some pretty graphics), they'll just mouse-click on to the next item.

But are fancy graphics and big dollar budgets the only way? Not necessarily. There are some interesting case histories of campaigns which were done really cheaply with very 'low-tech' techniques, such as 'Star-Trekking'.

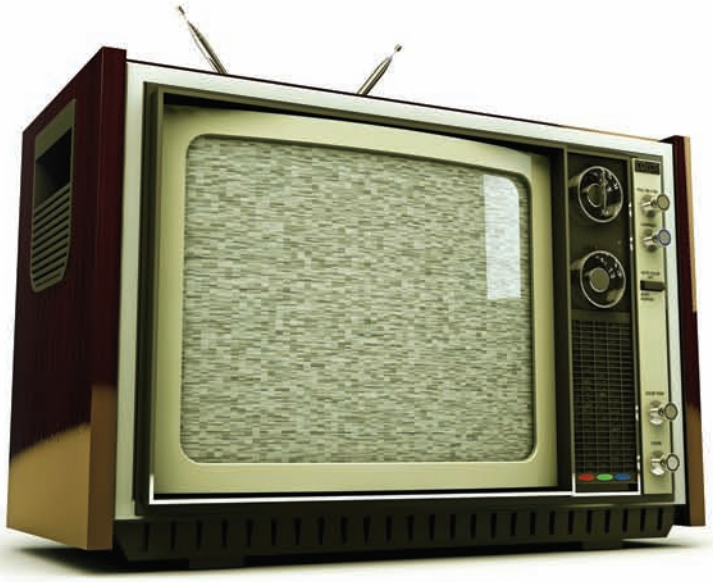
You've probably not heard the name Bjo Trimble, but she managed to pull off one of the most remarkable (not to mention highly effective) campaigns ever. In fact, she is known as 'The woman who saved *Star Trek*'. The irony was that the iconic science-fiction TV show had a high tech theme, and a high tech audience (scientists and engineers just loved it); yet, the campaign was good old-fashioned letter-writing.

In 1966, the big US network company NBC aired the first *Star Trek* TV shows with some initial success and 29,000 fan letters arriving at the head office in a few months. But as more months went by, interest appeared to fade and senior management began to make plans to take *Star Trek* off the air.



But Trimble came along. She'd heard the rumours, as indeed did many of her friends. There was widespread concern among the fan-base, but there was no coordinated activity. As Trimble was a science fiction fan, she and a few friends had previously organised events and newsletters for like-minded people.

When she heard about NBC's plans, she organised a letter-writing campaign. From December 1967 to March 1968, NBC received a most unusual 116,000 letters



from fans urging it to keep *Star Trek* running. As a result, NBC reversed its decision. *Star Trek* went on to be one of the biggest franchises ever, with 12 movies as spin-offs, not to mention four other TV shows. Nowadays *Star Trek* conventions have become a sprawling and sizeable sub-culture in many countries.

So, what are the key lessons we can take away from the success of Trimble's letter writing campaign?

1. Be 'on trend'

   In the mid-1960s one of the hottest social issues was the women's liberation and feminism movement. While Trimble was running the campaign, her story was of great interest to the general public and easily marketable. Newspaper and TV interviews came rather easily to her, to a substantial degree, simply because she is a woman. To her credit, she freely acknowledged that input from her husband John was easily equal to hers, but the media wasn't as interested in interviewing a man (and presumably John was 'big enough' to handle that slight bit of injustice in the interests of the greater good).

2. Utilise pre-existing social tendencies

   Most countries and most cultures just love stories of the little guy taking on the big guy ('David and Goliath' or 'the under-

dog' being just two common phrases in the English language). Trimble and her friends were just ordinary folk and they were taking on the might of not just one of the biggest mass-media players, but also one of the biggest players in corporate America. For most people around the world, it was an appealing tale.

3. Be specific
   Trimble issued very clear instructions as to what type of wording to use in the letters, and which NBC employee to send them to, and what to put on the envelope.

4. Multiply
   A very import part of the campaign wasn't just about writing letters to NBC. There was also the letters to friends. The clear message 'Tell 10 of your friends to write also' amplified the whole campaign. The plan was to get fans to tell 10 of their friends, and so on. A good multiplier strategy can be massively effective and frequently the deciding factor in a campaign (after all, you can only do so much on your own).

Fighting back

So, how does all this relate to the oils and fats business? Well, despite the fact that it is neither *Star Trek* nor the US presidency, a really good rule in marketing is: what works in one area often works in another totally unrelated area.

Let's start with 'the underdog' phenomenon. The general public in the West typically see edible oil companies as faceless multi-million dollar corporations run by men in suits, who are concerned about numbers and hungry for profits.

It's a similar picture to how the American public in general, and *Star Trek* fans in particular, saw NBC. But it doesn't have to be that way for the edible oils industry. By focusing on the many low-income families in developing countries who have better lives, it can be seen as 'helping the underdog'.

In a similar vein, many NGOs are taking on the look and feel of NBC in the *Star Trek* campaign. The number of NGOs is consistently estimated as being millions of groups, with many of the larger ones having budgets of hundreds of millions of dollars per year. Many have taken on the form of large corporate entities. An easy measure of this would be the salaries they pay, as evinced by a *Daily Telegraph* article in the UK (Aug 6, 2013) which found that 30 UK charity bosses get paid more than £100,000 (US$165,000) per year.

Greenpeace, for example, has changed over the years. It has a big budget, employees, and money to make TV adverts – ironically, many of the qualities of the big corporations it fights against. Its employees are now into the thousands, and its annual budget is 300 million Euros (currently just over US$400 million).

Some of the more important elements of a good campaign are:

1. Be on trend. There are several trends the edible oils industry needs to be mindful of: climate change is still a massive trend, as indeed are social issues for developing countries. Conversely, fighting a trend can be an easy way to waste a lot of money.

2. Highlight how NGOs are, in so many ways, just as much a 'big business' as any corporation listed on the stock market. If they oppose you, this is one of their potentially weakest areas.

3. Know your target audience (frankly, a staggeringly small number of people bother to do this). The questions to be answered are so straightforward such as: who is your audience, and what do they value?

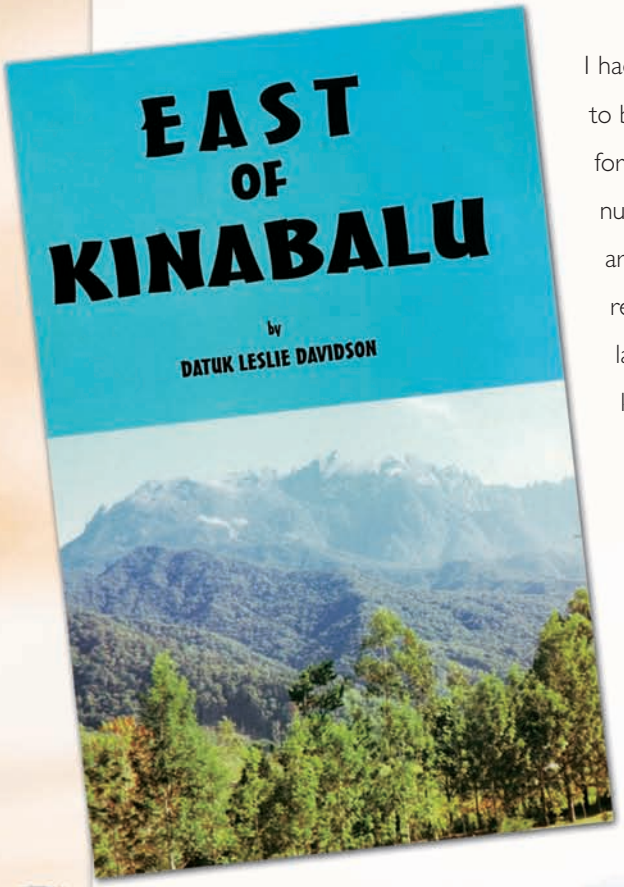
4. Get your marketing budget right. Sure, it's easy to waste money on this one, but it's even easier to be dead in the water because of being stingy.

Dr Ian L Halsall

Researcher & Author

Multi-national Community

Social harmony in the Labuk



I had been told in London that the major problem I was going to face was going to be the shortage of labour. I was quite pleased therefore at the way our labour force was developing so far. I now had over a 100 full-time workers, and this number was about to more than double as soon as the Cocos Island families arrived. I had been advised by the Commissioner of Labour that, when the last remaining tobacco estate in the Colony, down in Darvel Bay, closed down, a large group of Cocos Islanders would be looking for an employer who could keep them all together as a community.

I had gone down there hot-foot. I met the Cocos Island elders and arranged with their leader, the redoubtable Mandore Dick that his group – men, women, and children – would transfer up to our estate as soon as they finished on the tobacco estate. Their arrival was to be one of the most important and significant events in the history of our project.

The Cocos Islanders were a fascinating group. They were completely unlike any other race in Southeast Asia in their social behaviour, customs and dress. The Cocos Islands consist of a remote group of 25 tiny islands around a pear-shaped atoll in the Indian Ocean, some 600 miles south-west of Java. The islands were originally populated by Javanese and Sumatran immigrants who, in the 19th century, were brought in by the Clunies Ross family to work on their coconut plantations. In the early 1940s, the population had expanded well beyond the capacity of the land to feed it. A large number was exiled to Singapore and thereafter to Borneo, where the colonial government settled them on the Darvel Bay Tobacco Estate.

Even at this stage, we had on Tungud the most multi-racial labour force I had ever worked with. The backbone of the work-force was still the group of pioneers, the Indonesian workers whom I had recruited personally on my inaugural trip to Tawau. They had settled down rapidly. They got on well with the locals. Some of them married local girls or Cocos Island girls and settled down for good in the Labuk.

All the immigrants who made their way to North Borneo were of course adventurous and self-reliant. Anyone who was not so, would not have ventured on the long and dangerous voyage from Indonesia. They came from all the corners of Indonesia. The largest contingent was the Timorese, a friendly, easy-going, dark-skinned, crinkly-haired people who came from far-off Flores and Portuguese Timor – driven to leave their homelands by over-population, hunger and political oppression. Most of the Timorese were Catholics, with names like Michael, Mathias, Petrus and Cornelius.

The second biggest Indonesian group was the Bugis, later to become by far the largest part of our work force. They were a slim, aristocratic-looking people of Malay stock. Most writers on the East, from Conrad onwards, describe the Bugis as being fierce and warlike sea-pirates, quarrelsome, and quick to make use of their kris. The very word 'bogey-man' in the English language is derived from 'bugis-man' and comes from the early mariners' fear of the Bugis pirates. I was to find that their reputation as trouble-makers was exaggerated and unjustified. Whilst we did have perhaps a somewhat higher proportion of knifing incidents amongst the Bugis than amongst the other races, nevertheless, in general they were peaceful people with strict codes of honour.

Another large immigrant group, which had joined us when the timber camps closed down for the rainy season, were the Sea Dyaks from Sarawak (or Ibans as they were alternatively called). It was a great stroke of luck that their chief in the Labuk was my old friend Changai, who had officiated at the cock fight. Changai was a natural leader. When he joined the company, he became one of the best of our senior staff.

The heavily tattooed Dyaks were admirable people. Like our Kadazans, they were mainly pagan animists. They did not live in the kampong with the other races, but instead built themselves a small temporary long-hut on the edge of the area they were felling. They lived off the land by hunting and fishing, and most of their earnings they saved and took back with them when they returned to Sarawak. They were skilled in jungle-felling, and that is the only work they would do. They refused to work in the sunshine. Once an area was cleared, they would move on to another felling job somewhere else.

As well as these main racial groups, we had a few Javanese who were particularly skilled in drain digging, one or two Indians, a few Chinese, and a group of Suloks who had originally come over from the southern Philippines to work in the timber industry.

This was all in addition, of course, to the locals: Orang Sungai, Dusuns (or Kadazans as they were alternatively known.) Banjars and Tidongs who had settled in the Labuk before our arrival. Most of the locals had their own small rice-fields and vegetable plots, and they were becoming prosperous from selling vegetables to our workers, so they tended to work for us only seasonally. They lived in their own houses along the riverbank and were not included in our labour strength.

Absence of strife

In this multi-national community, one of the things which never ceased to surprise me, was the almost complete lack of racial or religious strife. We had a community consisting of some of the most feared races of Southeast Asia. Bugis guerrilla fighters rubbed shoulders with Sulok pirates, pagan Sea Dyaks and the descendants of Kadazan head-hunters. We had a mixture of religions: Islam, Buddhism, Taoism, Christianity and animism. The nearest policemen were 20 miles down the river at Beluran and they kept a very low profile. All the ingredients were there, for monumental racial or religious strife. The expatriate DO in Beluran was, I know, daily expecting to hear that our managers had been murdered in their beds. And yet everyone lived in complete harmony.

As one would expect with any large group of people, there were of course the odd quarrels and fights from time to time, even the odd murders, but with one or two rare exceptions, these were domestic quarrels which took place within the same racial groups rather than between different groups. By far the main factor which promoted this racial harmony was the high calibre of the community leaders who had emerged. We did not try to impose company-selected headmen on any group; instead, each group's leader became the headman when they arrived on the estate.

Samsudin the head of the Bugis; Michael Patty the leader of the Timorese; Changai the leader of the Dyaks; and Mandore Dick the leader of the Cocos Islanders, were all men of substance, deeply respected by their own communities as well as by the company. They lived up in the village with their friends and supervised the work of their own groups.

They also however spent much time with myself and with the other managers and staff. Each afternoon our supervisory team met together for an hour in the office to plan the following day's operations. In the evening they would often join us for a game of snooker or a hand of cards in the Labuk Club to which they all had automatic membership, as of course did Kong Miew and Ibrahim. Thus, they built up a good relationship with each other, as well as gained an understanding of the company's problems. Any potential inter-community problems were usually sorted out swiftly, before they could grow into anything bigger.

The other stabilising influence was of course our neighbour Ibrahim. We owed him a huge debt, and I was proud that he was my friend. It is interesting that he was the local bomoh, as well as the blacksmith. In Europe also, right back to the Middle Ages, there has been a tradition of blacksmiths being magicians or necromancers. There was a firm belief amongst our workers that Ibrahim was *kebal*. This implied that he was invulnerable to being wounded by a knife or burned by fire. All the races in the Labuk held him in deep respect, verging at times, I confess, on fear. He was the necessary link between the old order and the new; between the locals, the immigrant workers and the company. He was the rock on which our whole Labuk community was built.

My first assistant, Moray Graham, was now on site. Colin Black had promised he would send me the best planter they had in Africa to be my first assistant. Moray was from an expatriate family in Kenya. He had been to Aberdeen University where we had some mutual friends. Moray modestly claimed that the reason he had been sent to Borneo was his little problem with the Native Chief at Ndian Estate in the Cameroons. Moray had apparently shot a huge crocodile thinking he was doing a good turn for the local village, only to find that the crocodile in question was believed to be the spirit of the Native Chief's grandfather. Moray said the company thought that it might be better for public relations if he was to transfer swiftly to somewhere as far from Cameroons as possible.

Things were now beginning to get a bit more civilised on the estate. We now had a fully functioning electricity supply. The flush latrine, which Kong Miew had installed, was also a great success. It was another first for the Labuk. It created so much interest amongst the locals, that Kong Miew arranged a small opening ceremony. When I ceremoniously pulled the chain for the first time, and a stream of water gushed around the bowl, there were gasps of astonishment and a ripple of applause, which Kong Miew accepted graciously … flushed, one might say, with success.

I had also rented a flat in the centre of Sandakan, in which the family could stay from time to time on their visits. Olive, Catriona and Fiona would soon be coming out to join me. The company had booked their passages on the MV *William Ruys* which was sailing from Southampton in a few weeks' time.

But meantime, back in the bath, I swirled the ice cubes round my glass, drank the last of my gin and tonic and slid back into the now tepid suds with all the contentment of an old water buffalo sinking into his favourite wallow. The kaleidoscope river changed to a muted purple, before the night brought its black velvet curtain down on the show.

Where, I wondered, is the sombre spirit of sadness, the SSS, which Oscar Cook said I would find in the Labuk. How could he have found this marvellous region to be so depressing? Where else in this world could a man lie in a sunken bath with a gin and tonic in his hand, watching life's rich tapestry unfold on a jungle river, and with the smell of James Lloreno's Fricassé of Philadelphia Fowl wafting through from the kitchen?

Datuk Leslie Davidson
Author, *East of Kinabalu*
Former Chairman, Unilever Plantations International

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

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