Issue #1 Mar / Apr 2013

Khor reports' Palm Oil

Sustainability is heating up

Facing & fighting an **anti-palm oil campaign**

RSPO's glum outlook for a glut 2015-2030
Food labeling & China's popular product claims
Sustainability: ILUC & grassland HCV
Khor Reports' CPO Price Expectations Survey

Khor Reports' Palm Oil

March / April 2013 ISSUE 1

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Keep an eye on the big trends in palm oil, with our insightful analysis

With international media networks reporting every hour of the day and every day, there is no shortage of news on agribusiness and commodities. The problem is, much of this news may be emotively reported or designed for the general public and investors.

People working in the palm oil supply-chain need information to help lay the groundwork for decisions that are strategically timed and underpinned by expert knowledge. Read us, to gain insights of the palm oil industry. Whether your focus is on markets, products, sustainability or geopolitics, we provide penetrating analysis of the latest issues.

Khor Reports' Palm Oil can help you:

- Analyse and keep track of ongoing global palm oil activity; stay informed about emerging producing areas and downstream programs
- Keep an eye on important trends in key end uses: the food sector, home and personal care, and biodiesel
- Stay alert to shifting sentiments and politics in key markets

Every two months, Khor Report's Palm Oil newsletter will keep you focused with analysis of key trends and opinion on global palm oil issues. You can rest assured that we will keep you informed of the "big picture" on the issues that matter. Regular features of Khor Reports' Palm Oil include industry news, market intelligence, sustainability, interviews and more.

This is a subscription-free newsletter that is industry-supported (via sponsorship and distribution), while we maintain our editorial independence. So, how neutral can a newsletter entitled "palm oil" be? We are pro-palm because of its superior oil yield, its positive contribution to economic development in poor countries, its wide applications, and its nutritional values (e.g. no transfats and full of tocotrienols). At the same time, we acknowledge that rapid growth of the sector (and of anything) brings with it various ills, including bad practices from irresponsible actors. It is not all bad. There is always room for improvement

We believe in well-researched, balanced and nuanced analysis. Multiple factors are examined. As a political-economist by training, I have a keen eye out for who stands to gain or lose from any action or stance. On the need to embrace sustainability, we think it is more effective if everyone, from consumers to producers, takes real action. As a result, we hope that you will find this a useful read.

As this is our first issue, this editorial has been taken up with an introduction on what this newsletter is about and what we stand for. The content listing is below. The line-up includes sustainability certification, food labelling and bio-diesel challenges. In our next newsletter, we will examine the furore over red virgin/crude palm oil. An American alternative health expert has been talking about its powerful nutritional virtues. A feature on the Dr Oz Show has resulted in an eruption of NGO anger. In addition, a German ingredient company is promoting its pleasing colorant effect that is cost-effective and entirely natural. Also, we ask how organic-ready is palm oil? Please look out for our next issue.

Yu Leng, Khor

In this issue

Indonesia

Minimum wage hikes of up to 49%

On 1 January 2013, the Indonesian Ministry of Manpower's provincial minimum wage hikes of 8% to 49% came into force. Jakarta sparked off the populist move with its increase of 44% to about USD 230/mth. East Kalimantan had the biggest increase of 49% to just over USD 140/mth. Just to its north, is the East Malaysian state of Sabah. Here, illegal migrants working in shops earn about USD 120/mth. Maybank Investment Bank notes that "labour costs typically account for 30% to 40% of estate costs in Indonesia… a 49% wage increase could potentially raise overall estate costs by (up to) 15% to 20%". It also said that "Indonesia's rapid increase in minimum wages poses a long-term structural issue for Malaysian plantation estates."

While Indonesian businessmen gripe and grapple with the wage jump, their businesses are typically diversified. This could mean a net gain for them in the longer term: with faster spending power and middle-class growth, domestic consumer-oriented sectors will prosper. Overall, Malaysia could face the biggest challenge from its neighbour's new policy. Four (4) million or one-third of its workforce comprises foreign workers, mostly from Indonesia. Plantations, manufacturing and construction depend on them. The reversal of the minimum wage differential, with East Kalimantan topping Sabah, is a shocker. It is Malaysia's biggest palm oil producing state. In general, the plantation sector needs to find alternative labour sources or rapidly develop new technologies to improve labour productivity.

Malaysia

Finally regularises duty structure vs. Indonesia

From October 2011 to end December 2012 (for 15 months), Indonesian refined palm oil products enjoyed a significant pricing advantage over those from Malaysia. The prolonged policy paralysis caused some Malaysian refiners to temporarily stop their production, for up to five (5) months, due to the negative margins they were facing. The Malaysian physical supply-chain started to clog up with unsold palm oil, and stocks built up to record levels.

Due to a higher duty on crude palm oil (CPO), Indonesian millers prefer to sell domestically. Indonesia is now at a stage where it seeks to build up its refining and downstream sectors. At the start of this year, when Malaysia's new export tax structure finally came into force, almost harmonizing with Indonesia's. Now, many Malaysian refineries are reported to run at maximum or optimal capacity. Malaysia decided to set its CPO export tax for March at 4.5%, up from zero in January and February. With the new CPO tax levels in place for Malaysia, Indonesian refiners/exporters will have between 1% and 1.5% tax advantage compared to 5.5% and 9.5% earlier. Malaysia's biggest advantage is its logistics and the strategic location of its refineries and ports; plus-points for quality and delivery convenience.

China

Food safety & more

Starting January 2013, China strengthened its enforcement, so that edible vegetable oils imports would meet its existing standards. While this move has neutral impact on soy and rapeseed oils, it has greater implications for palm olein, with significant volumes imported sub-standard for some time. While seemingly an innocuous move to improve food safety, some see the shadowy hand of a competitor oil. However, our sources in China reckon that the tougher regulation is also an attempt to stop rampant traders who import palm olein and other vegetable oils, in order to help property developers to obtain financial credit from banks! The activity of these irregular traders results in the excess import of oil (with little concern on quality) dampening the domestic price for palm oil, which is at a big discount against its landed cost. Thus, it sounds like a multi-prong measure. The latest news is that cargoes are all cleared and total import volume has dropped. This may be a sign that China market activities are normalising; where only genuine users and importers will bring in cargo. Subsequently, we may see China's price discount narrow.

Biofuels

US aims to get its cars out of oil "for good"

In his recent State of the Union address, President Barack Obama proposed using some US federal oil and gas revenue to fund an energy security trust to support "research and technology to shift our cars and trucks off oil for good." A non-partisan coalition of CEOs and retired military top brass made the proposal. Obama said to Americans: "Let's take their advice and free our families and businesses from the painful spikes in [gasoline] prices we've put up with for far too long." Oil & Gas Journal reports that "the fund would strictly focus on new technologies to displace oil in transportation, particularly electricity and natural gas". The proposal also calls for yearly contributions to be capped and for the US Department of Energy to report to Congress each year on its progress.

A potential future change in platform for the US car and truck fleet may leave biofuel pundits a bit worried. These alternative fuels are on the same platform as oil. Furthermore, agri-feedstock price swings are also to be deplored. First generation biofuels, including palm biodiesel are also facing challenges on other fronts (refer to story on ILUC, page 6). Instead, waste feedstocks are increasingly in vogue. The US energy renaissance is set to reignite its competitiveness, with energy a fraction of its old cost. There is a widespread view that transport fuels will remain business-as-usual. If the new US plan works, does that hold? The global energy market is vast. Is the US move more likely to impact its own natural gas prices while international petrol prices remain high? It's all conjecture for now.

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Food sector

Labelling

Since mid-2012, the food industry has been rather preoccupied with the issue of food labelling. These include mandatory nutritional information (including saturated fats), the naming of specific oils and country of origin. Efforts in the UK and China are noteworthy. In addition there are voluntary "free-from" labelling efforts e.g. GM-free and palm oil free.

In the UK, the food industry is grappling with regulatory proposals for single front-of-pack hybrid nutrition labelling scheme combining guideline daily amounts (GDA) with traffic light warnings to help improve public health, especially obesity. The proposal by the Food Standards Agency was defeated by the food lobby, but it was revived by the Department of Health in October 2012. The UK government proposals are backed by retailers, but the food industry prefers a monochrome GDA, which critics say consumers cannot easily understand. These proposals are in preparation for the introduction of the Food Information to Consumers Regulation (FIR) in 2016. FIR makes the labelling of certain nutritional information mandatory – calories, fat, saturated fat, sugar and salt.

Example of a hybrid nutrition label

Various supermarkets have already adopted front of pack labelling combining GDAs and traffic lights. Sainsbury started the trend in 2005, Asda in 2007, then Waitrose, The Co-Operative, Lidl and Marks & Spencer.

In the UK, there is also a "Flag It" campaign that points to a survey that 83% of consumers want better country-of-origin labelling (COOL). "Information on the origin of a food product is compulsory by law for certain foods (mostly meat and dairy products). Additional information on the origin of individual ingredients may be provided voluntarily on foods. Under current labelling rules the place of origin is considered to be the place of last substantial change."

Name the oil: generic "vegetable oil" labels to be changed and the name of oils used must be stated. In 2012, Bloomberg reports that "China required cooking-oil suppliers to clarify and label the source of their products as part of a campaign to improve transparency on food issues;" resulting in bottlers there limiting the use of palm oil. Cheaper palm oil was often blended with other oils, especially during the warmer months, when the clouding of palm oil would not be a concern (semi-solid at lower temperatures). Less flexibility in formulations might have cost implications for consumers.

Consumers take 15 seconds to decide on a supermarket purchase; traffic lights could work: in one study, sales of a red-lighted soda fell 16.5% in 3 months

At the same time, voluntary "free-from" labels have sprung up across Europe. FoodManufacture.co.uk reports that in 2013 the introduction of a harmonized "GM-free" label will enter consultation, to reduce consumer confusion. It explains that "existing EU regulations require positive labelling, so food and feed must carry a label that highlights the presence of genetically modified organisms… but those with no more than 0.9% GM ingredients are exempt." The other big area of voluntary labelling is in eco-labels, e.g. Fair Trade, the Roundtable on Sustainable Palm Oil (RSPO).

Manufacturers are being pushed to reformulate to reduce levels of salt, fat and sugar in food and drink; and also to cater to consumer concerns about GM and sustainability. These trends will continue. The nutrition label worries anyone with products that may generate a "red" light to worry consumers. For palm oil it is all about the saturated fats label. On this front, Malaysia's researchers are trying to get their "SN-2 hypothesis" studies further peer reviewed. This tries to explain why palm oil behaves like olive oil (and not lard) when ingested i.e. palm oil isn't bad for your heart and it doesn't impact obesity.

The major confusion in product labels will be with the proliferation of voluntary efforts. While the GM labels should consolidate, eco-labels including RSPO and negative labels such as "palm oil free" may proliferate. The latter may face increased legal action by palm oil interests, which must be emboldened by the win by Cote d'Ivoire palm producers in France. On the voluntary eco-label front, those who can spend the most may prevail. For palm oil, the marketing efforts of the RSPO and ISPO will be important.

Key food labels	
Mandatory	Nutrition, country of origin, name the oil, GM-free (in the future)
Voluntary, positive	Nutrition, Fair Trade, FSC, MSC, RSPO etc.
Voluntary, negative	GM-free, other "free from" claims

China

Popular product claims

In China, data on the top claims made in new cooking oil products launched in 2011 makes for an interesting read. It tells us about the product features that interest Chinese consumers.

125 cooking oil products new launches in China, 2011 (data from Mintel)	
GMO-free (37); no additives / preservatives (20); low / no / reduced transfat (4)	61 (49%)
Organic (16); environment-friendly (15)**	64 (51%)

All palm oil players can be heartened that their product comes up well in all the key negative claims, covering 49% of new products. On positives, RSPO members get an extra nod with 12% but organic beats at 13%. Note that GMO-free plus no additives / preservatives and organic trump environment-friendly by a factor of nearly 5x. This may explain why **RSPO is not yet gaining much headway in China?

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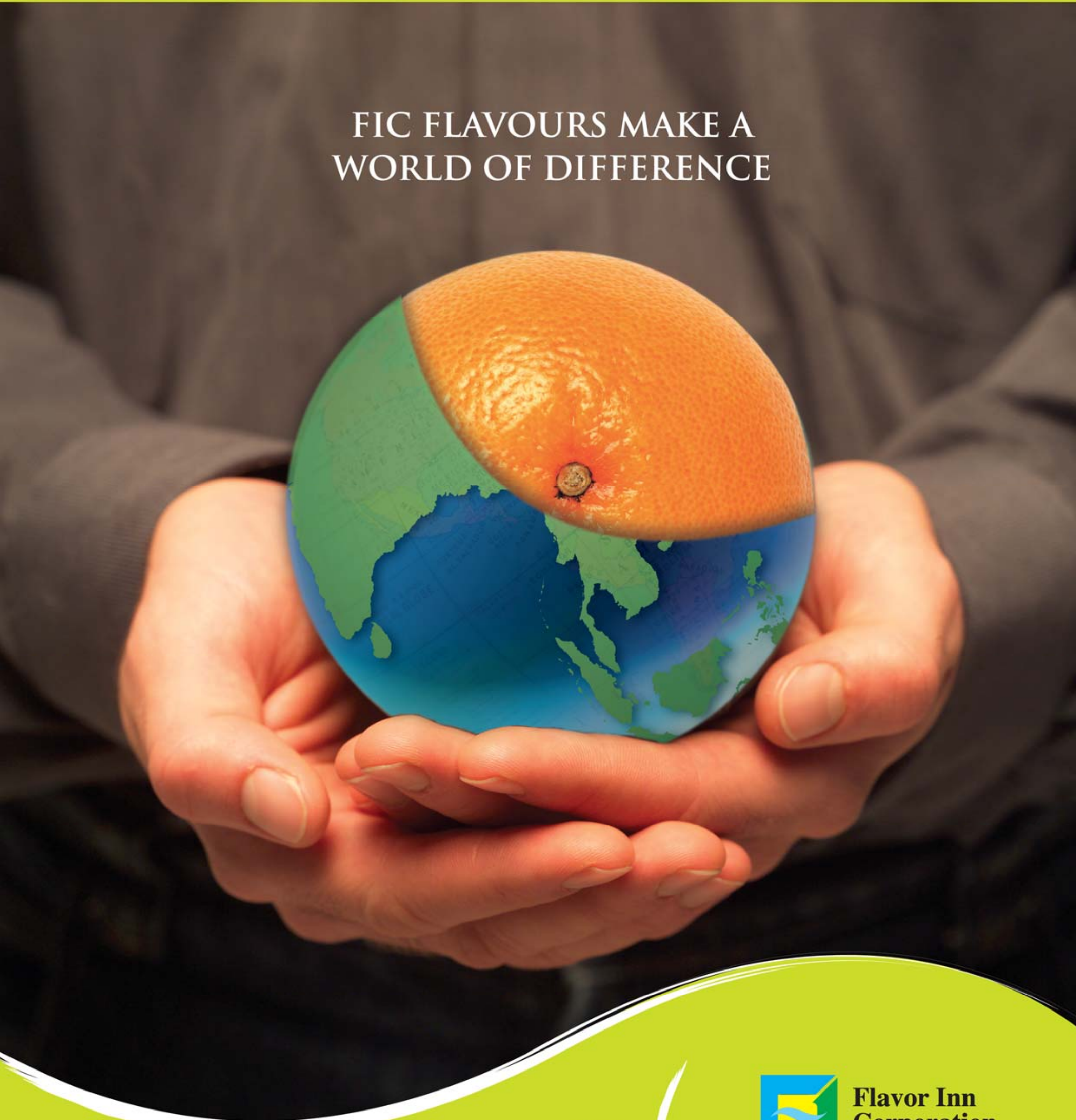

FIC FLAVOURS MAKE A
WORLD OF DIFFERENCE

EU-RED

ILUC may block all except waste for biodiesel

Biofuels use is aimed at combating climate change. The risk of "Land Use Change" (LUC) is the fear that the production of biofuels causes high or perhaps more greenhouse gas (GHG) emissions than it is saving, e.g. when the land converted for biofuels production previously had a high carbon stock in the vegetation or in the ground. LUC can happen directly (DLUC), e.g. forest land converted to palm oil plantations or indirectly (ILUC), e.g. pasture area converted to plantation for biodiesel, and the pasture sector converts forest to compensate the loss of this area.

The EU biofuel regulation now has to include ILUC but there are different positions within the EC on how to do so. One option is to include a so called ILUC-factor in the equation to calculate the biofuel LCA (life cycle assessment). IFPRI/CGIAR calculated a high global ILUC-effect for the EU biofuel goal for 2020, putting most of the blame on palm oil production on former peat lands in Southeast Asia. But these models are criticized as they cannot forecast future policies and behaviour. In the US, ILUC has been included. We hear that even with optimistic data, palm oil would have savings of less than 20% and hence disqualified as a biofuel feed stock there.

Rapeseed, sunflower and palm oils (palm oil with methane capture, but not regular palm oil and soy oil) were admissible for incentives under EU-RED. With ILUC, they may no longer be (marked by "x" below).

Let's put aside the technical disputes over modelling assumptions and more. A scan through the UK newspapers over the last year or more has shown the tide of opinion turning against biofuels from crops. Previously, rapeseed the key EU produced oil passed muster while its key competitors (soy and palm oils) did not; resulting in suspicions of science having been somehow influenced to serve EU farm interests. Now all may fail the 35% GHG savings bar. The "food vs. fuel" debate spurs a shift to second generation feedstocks and waste products. On the practical front, let's remember that the EU's economic woes are hardly supportive of sectors requiring lots of subsidies.

The US biofuels program already includes ILUC and it further aims to get its transport sector off the oil platform. These are double negatives for palm and other crop-based biodiesel exporters (see page 3). Longer term, they may face the cold shoulder from the EU and the US. Could consumers in producing countries be made to subsidise biodiesel businesses caught wrong-footed?

HCV

Grassland criteria soon?

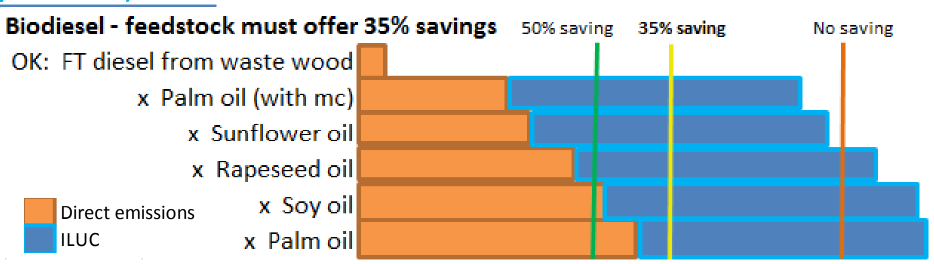
The WWF and HCV Network are working on a project to define the high conservation value (HCV) concept for grassland. So far there has been a lack of operational guidance on HCVs outside forest settings. Grower members of certification schemes will need to identify areas that should be protected or treated with care to preserve their values when developing non-forest lands. Grasslands require more management effort, to maintain or mimic natural dynamics such as fires or periodic inundations.

A draft paper identifies each HCV with sub-elements, gives indicators for measurement, tools to identify the indicators and management responses. Workshops are being held to further develop the concept and a draft is expected to be ready for wider circulation in 3Q2013.

Which geographies and crops are likely to be impacted? In addition to savannah grassland, Nigel Dudley of Equilibrium Research explains that "many FSC-certified forest management units contain elements of grassland or ecosystem mosaics with woodlands, grasslands and wetlands. Other important users of 'HCV grassland guidance' may be the RTRS scheme for soy certification and RSB for biofuels"[1].

"Definitions and interpretation of some of these terms are still under development; the term "grassland" has been used very loosely to include savannah and other non-forest ecosystems." (Equilibrium Research)

Oil palm growers, especially those in the RSPO could also be widely impacted. Those developing grassland / non-forest, including those in Papua New Guinea and in the de-militarised southern Philippines, should take note. The potential for carbon-free expansion may face some limits by grassland HCV considerations. Those developing degraded and logged over forest lands may have to manage non-forest areas according to a future grassland HCV regime. Non-forest area development could become a lot touchier. Keep an eye on this.



[1] Forest Stewardship Council (FSC), Roundtable for Responsible Soy (RTRS) and Roundtable for Sustainable Biofuel (RSB) are all WWF-initiated voluntary certification programs.

Sustainable palm oil - heating up

Sustainable certification has become necessary for growers wishing to supply to top international buyers, but it has not proven itself as a sufficient assurance for market acceptance and market access. Some are unconvinced, even by sustainable palm oil. In recent months, palm oil-free product launches, are a worrying nascent trend (read our story about the "palm oil free" tussles in France, page 8).

Born of recognition of some ills that have arisen from the earlier very rapid growth phase (especially environmental and social pressures), the RSPO was established in 2004. It has successfully signed on the biggest growers, supply-chain companies and consumer goods manufacturers (CGMs) and retailers. It has over 1000 members. Its grower members have certified 1.6 million hectares of oil palm with output of over 7 million MT of palm oil. RSPO seems to use a two-prong "shun it, tax it" combination to promote its goals. On the first, together with WWF, it wants large CGMs to buy 100% RSPO certified product. Also, it seeks government procurement commitment to buying RSPO certified products in order to trigger other big players. RSPO's support for tariff differentials is surprising. As it is a voluntary standard, its seeking an involuntary penalty (via a relatively higher import duty) on its non-members is a tad unseemly (the "tax it" prong; refer to RSPO statement for details)[2].

Despite its stellar success, RSPO has a glum forecast for a glut as supply may continue to exceed demand by a factor of 2 for the foreseeable future. For its next growth phase, RSPO will need to increase buyers from outside of the EU. Key targets now include India and Indonesia, while efforts in China have yet to bear fruit (see page 4 for possible reason). RSPO's forecasts for 2015-2030, based on its members' commitments, are for 50% market uptake of its CSPO product. That is not a good sign for RSPO certificate premiums. On this point there have been rumblings from growers. In this regard, the "moral obligation" argument of Butler & Koh[3] for the richer buyers and traders to bear more of the burden is worth revisiting.

The bulk of the biggest growers of palm oil and nearly all the biggest multi-national consumer goods manufacturers and retailers are members and included in the RSPO's forecasts. RSPO is a voluntary certification program for palm oil that focuses on big company members. It does not cater well to small estates or outgrower farmers and has no plans to do so yet (unless sought out by sufficient supplicants). While some good initial efforts are being made to include smallholders, these efforts are pretty small so far, and this segment is still seriously lagging within the RSPO.

Palm oil sustainability schemes, at a glance
RSPO: A voluntary standard certification led by the WWF & Unilever. Requires 100% areal certification with target year for majority-owned estates (notorious "clause 4.2.4"). Discourages extensive peat land development. Remarkable 14% market penetration of producers in only 8 years. Added bio-fuel cert Nov 2012; does not require 100% areal cert. RSPO Greenpalm online pricing in doldrums, off-market trades at higher price (but not disclosed), supply 2x demand. Undergoing P&C review. Keep eye on peat land definition, carbon stock, GHG monitoring, compensation mechanism issues. Seeks differential duties / taxes.
RSG: A voluntary scheme led by Nestle with Golden Agri / Sinar Mas on board. Comprises RSPO standards plus no peat land rule.
ISCC: For producers selling into the EU bio-diesel market. Offers significantly higher premiums than RSPO (no price disclosure). May have diverted 2 million MT from RSPO.
ISPO (NEW): Mandatory, state-led scheme for Indonesia, standard certification approach. Just getting off the ground with 10 estates certified by early February 2013; exceeds RSPO on criteria for land use licensing. Peat land development regulated for 1 and 3 meter depths. Targets 300 companies certified by end 2014.
MSPO (UPCOMING): In public consultation, 1 Feb to 31 March 2013. A Malaysia state-led, voluntary scheme with a standard certification approach. Relies on state regulation on peat land, but expected inclusion of GHG balance will impact peat land usability. Estimated availability from 4Q2013.
MARESPO (UPCOMING): A non-standard certification, with an inclusive approach. Its hybrid, aggregate"branding" approach is inspired by the approach of the Canada canola, US soy and New Zealand milk industries. Uses licensing and other principles. Submission-based, not requiring (costly) 3rd party audits.

Currently, RSPO has a monopolistic status as a certification program for sustainable palm oil for the food and oleochemicals sectors; and ISCC for bio-diesel. RSPO added bio-diesel certification to also cater to the EU market. Overall, RSPO and ISCC are the current de-facto duopolists in palm oil certification. Responsible Sourcing Guideline (RSG) is based on RSPO standards with the addition of stricter deforestation and (no) peat land development rules. Other certifications will be making their presence felt: Indonesia Sustainable Palm Oil (ISPO), Malaysia Sustainable Palm Oil (MSPO) and Malaysia Responsible Palm Oil (MARESPO). Please refer to the box above for a brief description of each.

RSPO is in a tight spot. While facing an oversupply outlook, its monopolistic position will be contested. Its push for buyers in Indonesia and India will be interesting. But how will the industry respond to any controversial moves for duty / tax preferences? The lower priority it has placed on small estates and smallholders is a key criticism. Any higher tax on non-RSPO certified product would be de facto regressive.

[2] Countries in the RSPO's focus within the EU are Netherlands, Brussels, Germany and the UK. In its global reach to influence and recruit buyers and key decision-makers, RSPO is aided by Hill & Knowlton Strategies, a specialist in the consumer-facing sectors whose clients include big banks and big oil. Unfortunately, if such moves to affect the trade of palm oil succeed, it will be RSPO's lower priority sectors i.e. small holders and outgrower farmers, who will suffer most for being left on the wrong side of any RSPO triggered trade barrier. RSPO's statement in support of differential taxes here: http://www.rspo.org/news_details.php?nid=17.
[3] Weblink to article: http://www.thejakartapost.com/news/2010/01/12/sharing-burden-producing-sustainable-biofuels.html-0

"Palm oil free" and super tax get short shrift in France

Some are unconvinced by sustainable palm oil and have questions on health impacts. In 2012, palm oil faced a strong negative campaign in France. The three-prong anti-palm oil campaign uses classic tactics. We can call it the "shun it, tax it, ban it" combination.

Shun it, tax it …

"Palm oil free" products were being launched and gaining traction in the EU markets, especially in France where the "Nutella Wars" were playing out in the latter part of last year. The choclate hazelnut spread, made by the Ferrero Group, was facing a challenge by a similar new product made by the Casino Group, which was marketed prominently as "sans huile de palme". The Casino Group has been aggressive in switching its food products to other vegetable oils. It reports: "In 2011, the Casino brand had 312 items without palm oil, or 62% of its food offer. The removal of palm oil is continuing and should reach 72% by 2012. In the case of non-food products… the Group has been using the RSPO supply line since March 2011." Casino claims that its brands have a 50% market share in France. Green campaigners also encouraged the Mayor of Paris to ban palm oil from use in schools and in government contracts. This should have a domino-effect, to push others to do likewise.

At the same time, the French Senate Committee on Social Security proposed an amendment for a tax of EUR 300 per MT on palm oil. On top of the existing tax of EUR 100 per MT in France, the amended tax would amount to EUR 400. This was dubbed the "Nutella tax." The campaign against palm oil in France was based primarily on claims that palm oil is bad for health and the environment.

The defence

The anti-palm oil campaign has been unravelling. In June 2012, a case was brought by smallholder farmers from Cote d'Ivoire to the Tribunal de Commerce in Paris against Systeme U's advertising campaign against palm oil which said "No to palm oil, yes to low prices. But not if it costs the earth." In December 2012, the French retail cooperative (comprising about 800 independent hypermarkets and supermarkets) was ordered to end its misleading advertisements. Systeme U was to cease all further dissemination of anti-palm oil advertisements or be subject to a penalty of EUR 3,000 per infringement. The French Senate's "Nutella tax" amendment was defeated in its own chamber, and in the National Assembly. Representations were made by delegations visiting from Malaysia and Indonesia. Various food manufacturers such as Ferrero and Carrefour also publicly defended palm oil usage. Malaysian smallholders also spoke out.

What was at stake? According to The Guardian newspaper, 100 million pots of Nutella are consumed in France each year, containing 20% palm oil. It reported that Ferrero "moved to reassure its customers in France, insisting that there will be no change in the recipe… (if the tax passed), it would add at most six centimes to the price of a pot." Also, the Malaysian Palm Oil Council argued that "palm oil is a healthy, natural and important product, which 240,000 small farmers in Malaysia are proud to produce."

Nigeria's Initiative for Public Policy Analysis (IPPA) is an active advocate. It noted that "Casino and Systeme U have spent millions of Euros on unjustified and unscientific attacks against palm oil…(these) discriminatory attitudes which would have negatively affected millions of Africans and Asians. Palm oil provides a route out of poverty for millions of rural people in Africa, so putting a tax on this oil would be regressive and unfair… the lives and livelihoods of African farmers' depend on it." IPPA further said that claims that palm oil is bad for health "are erroneous and unfounded. Multiple French academics and scientists have stated that palm oil is not a major health problem in France: palm oil does not contain trans fats, and palm oil only provides a small percentage of saturated fats consumed by French consumers. Major French research institutes and NGOs such as CIRAD, ITERG and Fonds Francais Alimentation & Sante (FFAS) all have stated these to be the scientific facts."

We think….

Many developed countries are raising taxes on fats and sugary drinks (and other traditional vices such as alcohol), to improve public health and to help plug the hole in public finances. France is no exception. The legal action by the Association Ivoirienne des Producteurs de Palmiers à Huile (AIPH) is likely the first time that a producer nation has attempted to defend palm oil in this way. It is interesting that relatively small producers from a minor producing country took this on. Malaysia and Indonesia account for 85% of world palm oil production, and they are dominated by large corporate growers. After facing numerous NGO attacks, were big producers too battle-weary to adopt an aggressive defence of their product? In consideration of more aggressive marketing approaches, Khor Reports reviews what palm oil marketers might consider (see below).

What might palm oil claim and re-name?

Negative claims	
"Free from"	No transfats, GMO-free
Positive claims	
Health	Organic-ready
Social	Support small farmers (a la Fairtrade)
Environ-mental	National: Malaysia 50% forest cover commitment & regional claims for Peninsula Malaysia (not an orang-utan habitat & a long human use area)?
The "name game"	A fruit oil like olive oil; "crude" = "virgin" Rethink nomenclature for "refined bleached deodorized" for more positive connotation? E.g. bleaching is done with natural clay, not chemicals.

prices & outlook

Key vegetable oils

USDA: US tight stocks, South Am concerns buoy soy prices

USDA reported on 12 February 2013 of strong year-to-date US crush data which has raised USDA's forecast of the 2012/13 soybean crush, for a better outlook for meat production. USDA also raised its forecast of soybean meal exports on "near record sales commitments for this time of year". The brighter crush outlook lowers the stock forecast to "an extraordinarily tight 125 million bushels".

USDA reports the increase in cash prices for soybeans this year by USD1 to around USD15 per bushel in February. "Much of the recent price rally is based on anticipation that dry weather could harm soybean crops in Argentina and southern Brazil. Growing perceptions that Brazil could have major transportation bottlenecks this spring may also be providing additional support." It raised its 2012/13 forecast of the U.S. average farm price by 5 US cents to USD13.55-15.05 per bushel.

The outlook "is for good soybean yields in Brazil, and a higher crop forecast … offset by a reduction for Argentina. Brazil rainfall throughout the growing season has been abundant except for the southernmost part of the country…. crops (there) are in good condition and far better than they were at the height of last year's drought". In Argentina, rainfall has been one-third norm since late December, drying out topsoil considerably. For now, adequate subsoil moisture has averted crop stress (recharged with abundant rains in 4Q2012). USDA notes "crop yields are susceptible to further deterioration if precipitation does not resume over the next 4 -6 weeks."

Weather outlook

Indonesia: wetter rainy season expected

"On January 18, 2013, the Indonesian Meteorology, Climatology, and Geophysics Agency (Badan Meteorologi, Klimatologi, dan Geofisika, BMKG) forecasted significant precipitation due to the rainy season in the areas of South Sumatra, Lampung, Bengkulu, large parts of Java, Bali, and Nusa Tenggara. In addition to increased rainfall, the rainy season has increased wind speeds and tidal flows in South China Sea, Southern Karimata, Flores Sea, Timor Sea, Sawu Sea, and Banda Sea. Currently, the air movement is from Asia to Australia. The movement of air from Asia to Australia tends to increase the impact of the rainy season in Indonesia. Conversely, air movement from Australia to Asia tends to create dry and/or drought conditions. BMKG predicts that the peak of the rainy season will occur between January - March 2013. On January 25, 2013, the Indonesian Ministry of Public Works published a report on the conditions of Indonesia's water reservoirs. The report listed one reservoir on Java, three reservoirs in Bali, and four reservoirs in Sumatra as "alert" status due to low water levels" (source: USDA).

CPO technical view

Short term "weak bull"

Malaysia palm oil futures are "oversold" in the short-term and may rebound to RM 2,800 (USD 904) per MT by the middle of 2013, according to Benny Lee of Jupiter Securities. His analysis of price chart patterns show prices bottomed out at RM 2,300 to 2,400 (USD 741-774) and "there is a reversal in price trend from bearish to bullish," on optimism that Malaysia's duty-free exports in January and February may reduce stockpiles. Malaysia stocks were 2.58 million MT in January, dipping from the record 2.63 million MT in December 2012. If the immediate resistance at RM 2,600 (USD 838) is not broken in the next two months, Lee said this would show "weak bullish momentum" and the price may continue to stay between RM 2,200 and 2,600 (USD 709-838) this year.

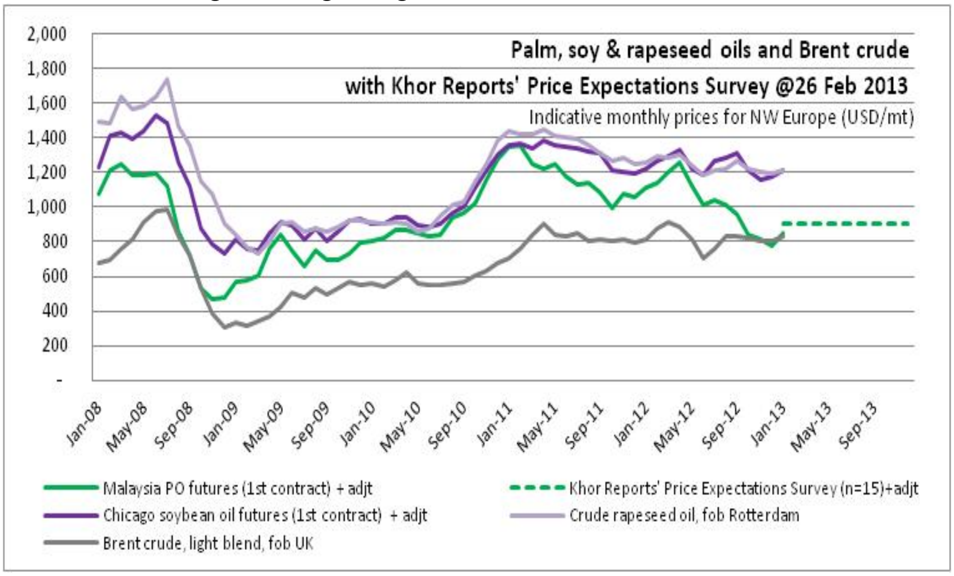


Chart: Prices & CPO price expectations

Our chart for palm oil watchers shows key indicative prices for NW Europe. We include a price outlook from the **Khor Reports' CPO Price Expectations Survey** which had 15 respondents at 26 February 2013. Key individuals shared their views on prices for 2013. Expectations appear muted at RM 2,580 or about USD 832 per MT on likely higher output. As our mini-survey focused on plantations and integrateds, their views may tend to the conservative. By comparison, key equity analysts have price forecasts of RM 2,800 (USD 903) and above.

Methodology note: To get NW Europe indicative prices we add adjustment factors to Malaysia PO futures (1st contract) and Chicago soybean oil futures (1st contract) based on average price differentials with Rotterdam prices listed on Bloomberg (a limited time-series available). Our survey asks "What CPO price (and/or range) do you base your expectations on for 2013?" In the chart, we adjusted the survey result with an adjustment factor for NW Europe indicative.