OVERVIEW OF THE OIL PALM INDUSTRY

THE CENTURY-OLD GOLDEN CROP

This Annual Report 2017 also commemorates the 100 years journey of oil palm commercialisation in Malaysia since its humble origins in 1917. This industry has not only transformed Malaysia into a powerhouse in the global edible oils and fats market but it continues to safeguard the national economy and remains an important pillar in the socio-political landscape. This includes providing employment opportunities, rural development and generating multiple spin-offs in the economy while safeguarding food security. Oil palm has helped many Malaysians through many rural poverty alleviation schemes, as oil palm continues to provide millions of smallholders with stable and recurring income. Both the Food and Agricultural Organisation and World Health Organisation have also endorsed palm oil as a balanced vegetable oil and is free of cholesterol and trans-fatty acids. Palm oil has become an affordable source of edible oils and fats which is essential in fulfilling the requirement of the world’s ever increasing population.

STATISTICS IN BRIEF

In year 2016, the oil palm planted area in Malaysia reached a total of 5.74 million hectares, a marginal increase of 1.7% from 2015. Sabah, where the Group is operating in Malaysia, is still the largest oil palm planted state, with 1.55 million hectares or 27% of the total oil palm planted area. The entire upstream supply-chain in Malaysia is complemented by 453 palm oil mills, 45 palm kernel crushing plants, 52 refineries, 20 oleo chemical plants and 17 biodiesel plants.

In year 2016, Malaysian CPO production recorded a sharp decline of 13.2% to 17.32 million tonnes as against 19.96 million tonnes produced in 2015. The decrease was due to lower FFB processed, down by 12.0% arising from lower FFB yield and also a lower oil extraction rate. The FFB yield achieved in Malaysia for 2016 was down by 13.9% to 15.91 tonnes per hectare. Underlying the above declines are the lagged effects from the extended dry weather conditions and below average rainfall brought about by the El-Niño weather phenomenon, especially during the second half of 2015 and the first half of 2016. The lower CPO production also reduced the palm oil inventory and contributed to push up palm oil prices.

In year 2016, the reference average CPO price was higher by 23.2% reaching RM2,653 per tonne, a significant jump of RM500 per tonne from RM2,153 per tonne in 2015. This was also coupled by the firmer competing vegetable oil prices and weaker Ringgit as against the US Dollar. This made palm oil relatively cheaper as compared to other vegetable oils in the world market. It is also important to note that the average price of palm kernel in 2016 also increased a significant RM1,084 or 70.9% to RM2,611 per tonne while the price of CPKO also increased by RM2,120 per tonne or 62.8% to RM5,493 per tonne. The higher prices were mainly due to the bullish domestic crude palm kernel oil price sentiment in tandem with the firmer world lauric oil prices. Overall, better palm product prices towards the end of year 2016 negated El Niño’s impact on the oil palm industry.