



The Malaysian palm oil industry and its contribution to the world oils and fats trade

SINCE its introduction to Malaysia in 1870, the oil palm has been playing an increasing role in the world supply of oils and fats. Following the establishment of the first plantation in Malaysia in 1896, the area has grown steadily. In 1960, there were only about 54,000 hectares (ha) of the crop but some 41 years later in 2001 the area had reached 3.5 million ha. In 2001, Malaysia produced 11.8 million tonnes of palm oil, 1.531 million tonnes of palm kernel oil and 1.78 million tonnes of palm kernel cake. Malaysia's palm oil production has approximately doubled every decade from 2.57 million tonnes in 1980 to 6.09 million tonnes in 1990, and 11.8 million tonnes in 2001.

In 2001, Malaysia produced 50.1 per cent of world's palm oil or 10 per cent of world's oils and fats. Thus palm oil is a major player in the world oils and fats market which comprises 17 major oils and fats.

Positive Developments on Palm Oil: The rise of Malaysian palm oil in the global oils and fats market was achieved by disseminating information in its techno-economic advantages vis-a-vis competing oils research into the health aspects of its consumption, sustainable production and reliability of supply. These positive developments on palm oil have and will continue to influence its dominant role in the global oils and fats supply.

High Output vis-a-vis Other Oilseeds: The palm oil gives the

highest output value compared to major oilseeds such as, soybean and sunflower. The total value/ha/yr (in 2001) for palm oil estimated at US\$ 1135, is more remunerative than rapeseed at US\$ 696, soybean at US\$ 543 and sunflower at US\$ 334. In many countries, agricultural land is shrinking owing to urbanization, and oilseeds are having to compete with grains for the what ever arable land is available. The cultivation of palm oil is thus the most obvious solution by producing more oil from less land.

Security in Oils and Fats Supply: Based on the Malaysian Palm Oil Board (MPOB) estimate of the oils and fats balance for 55 countries, the total production of oils and fats was

110.9 million tonnes (in year 2000). Notably, only 17 of the countries are self-sufficient with the remainder being net importers. Most of the palm oil imported was Malaysian palm oil. As oils and fats are essential food items, it is important that there is security of supply.

The oil palm, being a perennial crop can be relied on as a steady supplier of palm oil to meet partly the growing oils and fats needs of the world. Rarely does the oil palm experience an output decline due to the weather. In the last 20 years, the global supply of palm oil has quadrupled and the rare occasion when production did decline, as in 1998 due to the *El Nino* phenomenon, it was marginal. Given its price competitiveness, palm oil has been the

ing, margarine and confectionery fats. Palm oil is popularly used in solid fat products, such as vegetable ghee (vanaspati), as well in cooking oil especially for frying. It offers several technical characteristics desirable in food products, such as resistance to oxidation, which contributes towards a longer shelf life. In many applications, palm oil can be combined with its harder fractions, such as palm stearin, to produce products of the required consistency without hydrogenation. Common products made from palm oil and palm kernel oil, wholly or in blends with other oils, include frying and cooking oils, shortening, vegetable ghee, margarine and spreads, confectionery and non-dairy products.

and development efforts have succeeded in formulating products to meet such demands, develop new niches, enter new markets and enhance palm oil's competitiveness. New applications for palm oil in foods include its use in emulsion-based powdered and consumer foods such as pourable margarine, mayonnaise, soup mixes, palm based cheese and microencapsulated palm oil. Exciting products from new processes, such as red palm oil or red palm olein, have been introduced as healthy cooking and salad oils.

Minor Components: Palm oil contains valuable minor components including carotenoids, tocopherols tocotrienols, sterols, phosphatides, triterpene and aliphatic alcohols. Although they constitute less than 1 per cent of the oil, they play important roles in the stability and quality of the oil. Carotenoids and vitamin E (tocopherols and tocotrienols) are important nutritionally. Palm oil contains 500-700 parts per million (ppm) of carotenoids, namely a and b-carotenoids. These carotenoids have a pro-vitamin A activity. The vitamins that have generated the most interest among the scientific community are the B-carotenes and Vitamin E. These vitamins are known as biological antioxidants and are considered safe to consume without any serious side effects. Basically, these vitamins deactivate free radicals which otherwise would damage other healthy molecules.

Non-Food Uses: Palm oil products also find wide applications in the non-food sector, especially in the production of soaps and detergents, pharmaceutical products, cosmetics and oleochemicals. Soap is one of the most important applications of oils and fats and the traditional raw materials used are tallow and coconut oil. Owing to the similarity in their fatty acid composition, palm and palm kernel oil are good and competitive alternatives to tallow and coconut oil as the raw materials.

And added advantage of using palm oil products in soap and oleochemicals is their biodegradability, which contributes towards environmental conservation. With the growing consideration for the environmental and the need for eco-friendly products, it is envisaged that palm based products will gain greater popularity and wider market acceptance.

Economic development

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This level is sufficient to cover 4.6 times the short-term external debt and finance 5.6 months of retained imports. Malaysia's external debt position remains manageable. As at end-March 2002, total external debt amounted to RM175.6 billion or US\$46.2 billion, equivalent to 54% of GNP. Short-term debt accounted for 15.3 per cent of total external debt.

Bank and corporate restructuring

The banking sector has remained strong and resilient. The positive results achieved through the restructuring process and enhancements to the regulatory and supervisory framework and process have minimized the impact of the economic slowdown on the banking system. As at end-March 2002, the risk-weighted capital ratio (RWCR) of the banking system was sustained at 12.3%, while its net NPL ratio, on a 6-month basis, was 8.2%, well below the peak of approximately 9% in November 1998.

In particular, the success of Danaharta, the asset management company, significantly facilitated the successful resolution of problem loans resulting from the crisis. As at end-March 2002, Danaharta had acquired and managed RM47.7 billion worth of NPLs from the financial system, of which RM39.9% billion was removed from the banking system. Of this, approximately 99.9% have been restructured or approved for restructuring with an expected average recovery rate of 55 per cent. The distribution of the recovery proceeds from these recovery efforts to the banking institutions would further facilitate the efforts of the banks for further strengthening their financial position. In terms of the recapitalization of the banking system, the injection of capital amounting to RM7.1 billion by Danamodal into 10 banking institutions during the crisis ensured that the banking sector remained well capitalized. To date, the banking institutions have repaid RM5 billion, with RM2.1 billion outstanding.

The successful resolution of corporate debt by the Corporate Debt Restructuring Committee (CDRC) has also been a significant factor in ensuring the resilience of the banking sector. As at end-May 2002, the CDRC had successfully facilitated the resolution of 44 cases amounting to RM42 billion. The CDRC aims to complete the restructuring of the outstanding debts by July 2002. It should be noted that companies involved in debt restructuring under CDRC have also undergone significant operational restructuring. Many companies have experienced changes in ownership structure, management structure, business structure and strategy and improvements in corporate governance.

The significant progress achieved in financial reform and

restructuring has allowed for a shift in focus from short-term problems, such as dealing with banking sector difficulties, to medium and long-term issues on developing a more competitive resilience financial sector. The Financial Sector Masterplan, which plots the development of the financial sector over the next ten years, would ensure that the sector remains effective and efficient in satisfying the financial needs of the nation.

Medium-term Agenda

Prospects for the strengthening of the economic recovery and macro-economic policies would continue to reinforce the countercyclical measures already in place to support domestic sources of growth. In a move liberalized global environment, focus would essentially centre on ensuring consistent and efficient implementation of policies to effectively manage the increased competitiveness pressures. In this respect, structural adjustment efforts would be intensified and strategies are targeted to realise the full potential of the specific sectors, improve the productivity levels and ensure attractive incentive structure to both foreign and domestic investors.

Policy measures are also in place to address longer-term issues to ensure sustainable growth. The Third Outline Perspective Plan, which covers a ten-year period from 2001 through 2010, and the Eighth Malaysia Plan, which covers a five-year period from 2001 through 2005 provide the policy framework that outlines the strategies for the next phase of Malaysia's economic development. In addition, the Capital Market Masterplan and the Financial Sector Masterplan, which were implemented in 2001 provided the framework for the development of the capital markets and financial sector for the next 10 years.

An important policy objective in the medium term is to increase the knowledge content of all sectors of the economy to enhance the country's productivity and competitive position. A master plan for the transition towards a knowledge-based economy was completed in 2001. Malaysia is now targeting FDI into higher knowledge content activities such as in the Multimedia Super Corridor and in the medium-sized industries with special technology which involve high intellectual capital and low capital investment. The incentive packages have been modified to meet the specific needs of individual investors who wish to invest in the promoted sectors of the economy. Various forms of strategic alliances are also encouraged with foreign participation allowed through smart partnerships in the form of foreign equity holdings and at the management level.

-- Bank Negara Malaysia

Palm oil in meeting the demand of edible oils in Bangladesh

A K M FAKHRUJ ALAM

STARTING from early '90, local edible oil refinery owners managed to acquire the technology of refining of crude palm olein and palm oil again started to be imported in the country as crude palm olein (CPL), which is still continuing. Meantime, some of the local refining units added "fractionation plant" to their respective refining system with a view for more value addition locally through refining of crude palm oil (CPO). Presently, local refinery owners import crude palm oil and crude palm olein both for processing locally and market-

ing as refined palm olein. Obviously, local value addition in case of crude palm oil is more compared to crude palm olein. Besides, through refining of crude palm oil, refinery owners are able to produce shortening/margarine avoiding hydrogenation, which are more healthier compared to shortening/margarine produced through hydrogenation process.

Palm oil import in Bangladesh showed a steady increase since 1999, but in 2001, gathered speed and doubled in quantity compared to 2000. In the year 2001, a quantity of 341,447 tonnes of CPL/CPO was imported in Bangladesh 170, 119 tonnes in the year 2000. The

increasing trend of import of palm oil is also continuing in 2002. During, Jan.-June '02 period palm oil's share enjoyed a further rise and equalized with its competitor soybean oil. The share of soybean, palm and rapeseed/mustard oil, major 3 edible oils consumed in the country, during the period stands at 44:44:12 in the import quantity of oils and fats imported during the period for edible purpose.

Other types of palm oil, namely, palm stearin, palm fatty acids, palm kernel oil etc. are also being imported in the country regularly for inedible usages. During January - July '02 period, total import of palm oil and palm products i.e. CPL/CPO, palm stearin, PKO, PFAD together was the dominating item occupying almost 45% of total import of oils and fats in the country.

Considering the price competitiveness of palm oil in the international market, setting-up of new food processing industries in the country based on palm oil usages, changes in consumers' behavior and food habit with an improved standard of living helped palm oil's taking over of more market share in the country's oils and fats market. These factors would also continue to contribute to maintain the present steady growth of import of palm oil in the country in future.

The writer is Country Manager Malaysia Palm Oil Promotion Council.



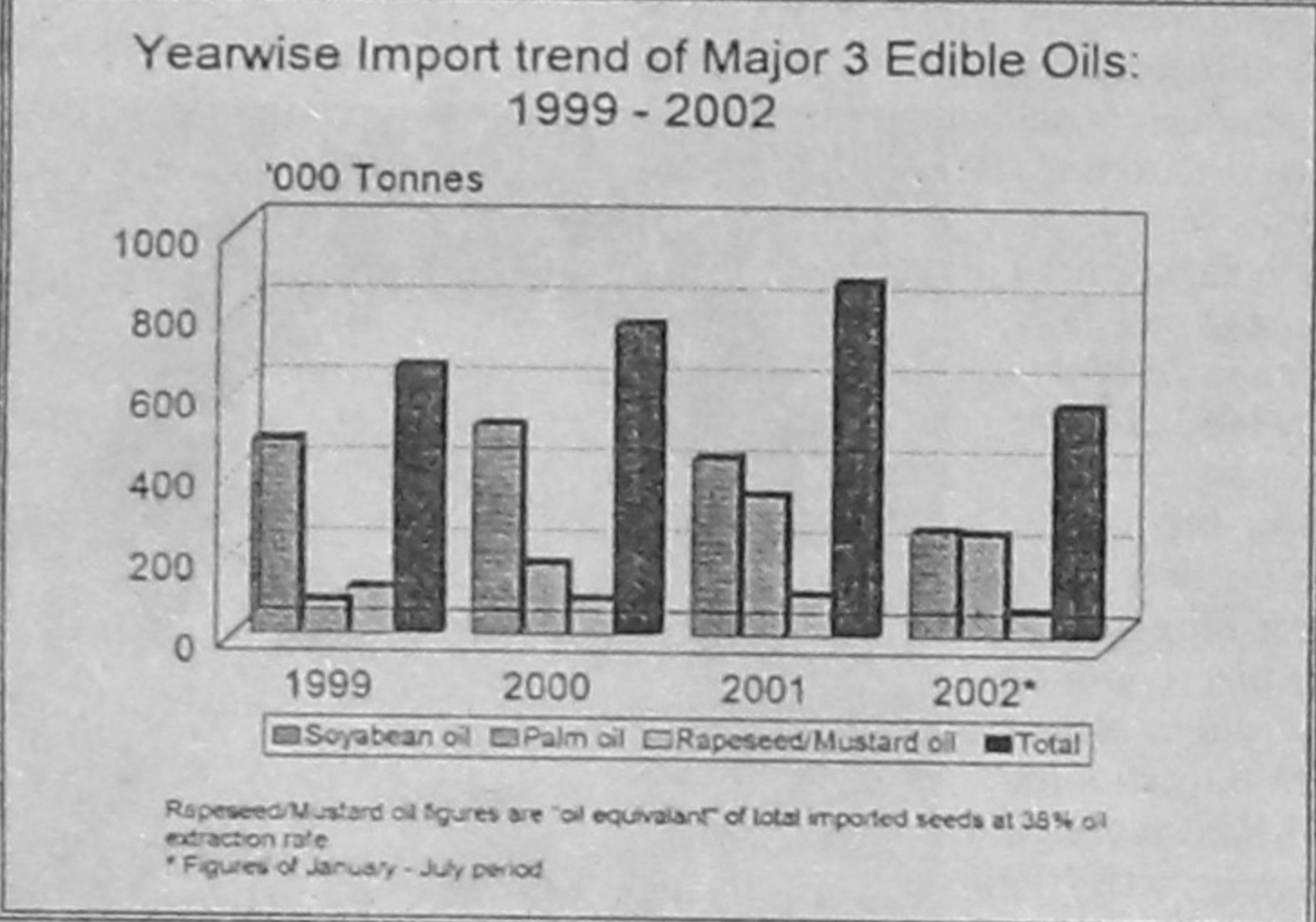
Oil palm tree

vegetable oil that serves the needs of both the affluent and the less affluent countries.

Versatile Food Products: The four traditional uses of palm oil in food products are cooking oil, shorten-

The changing trends in lifestyle and demand for consumer products based on convenience and health considerations have led to other areas of applications for palm oil and its fractions. MPOB's research

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