

CHAPTER IV

CONSUMPTION ANALYSIS

Like most other products the consumption of palm oil products increases with increases in population. This chapter shall be confined to an analysis of the local and foreign consumption patterns of palm oil and palm kernels. In passing, the chapter shall also include the uses of oil palm products, the market prices of the products and the marketing methods employed.

The Uses of Palm Oil and Palm Kernels

(a) As an Edible Oil

The improved quality of palm oil over the past years have led to the manufacture of edible oils from this product. In the 1930's margarine contained only about 5% palm oil. This was because of the poor quality of the oil. However through scientific research, better methods of processing and bleaching were employed so much so that at present about 25% of the contents of margarine are from palm oil. In Europe certain countries are manufacturing margarine mainly from palm oil alone. Palm oil is also used in the manufacture of cooking fats.

(b) In the Manufacture of Soap and other Detergents

Vegetable oils (especially hard vegetable oils) have long been used in the manufacture of soaps and detergents. Palm oil since it is one of the hardest vegetable oils is without doubt one of the best oils for soap making. However, the natural oils have to face up with competition from synthetic products which are also used in the manufacture of soaps. The synthetic products are cheaper than the oil palm products and therefore have an advantage over the oil palm.

(c) Used in the Tin-plating Industry

The manufacture of tin plates requires the need for certain oils to be used as fluxes. Thus palm oil has been increasingly used in the tin-plating industry. The oil is used to cover the cleaned iron surfaces before the application of the tin. This is to prevent the iron plates from rusting.

(d) Palm Kernel Oil

It is more akin to the coconut oil. About 40% oil can be extracted from the kernels. In Malaya very little expressing of oil from kernels is done. Most of the kernels are sent to the importing countries for extraction of oil. This is done for economic reasons such as the easy means of packing and transporting the kernels, and also the high costs of installing an extraction plant. Thus importing countries import large amounts of kernels so that there are economies of scale in the extraction of oil from the kernels. The uses of palm kernels are very much similar to that of palm oil. i.e. it is used in the manufacture of edible oils, and soaps. The residue of the kernel is used as an animal feed.

II Foreign Consumption

(a) Quantity Exported

Almost all of Malaya's palm oil and palm kernels are exported. The palm oil is exported mainly to the United Kingdom, India, Canada and Iraq. Palm kernels are sent to Japan, the United Kingdom, and Western Europe. The pattern of foreign consumption of palm oil is one which shows a gradual increase in the exports of the oil. On the contrary, palm kernels seem to have decreased in the quantity exported. Table 4-1 shows the export figures for the past years.

TABLE 4-1

NET EXPORTS OF PALM OIL AND PALM KERNELS
(in tons)

Year	Palm Oil	Palm Kernels
1954	50199	13940
1957	57964	16206
1958	58990	20931
1959	71105	19733
1960	90545	25213
1961	86980	21098
1962	100225	20284
1963	113110	19474

Source: Monthly Statistical Bulletin

The table shows that palm oil exports have been increasing while palm kernel exports have decreased. The decrease in the palm kernels exports even though production have increased is due to the increasing consumption by local industries. These industries have used more palm kernels which are relatively cheaper than palm oil.

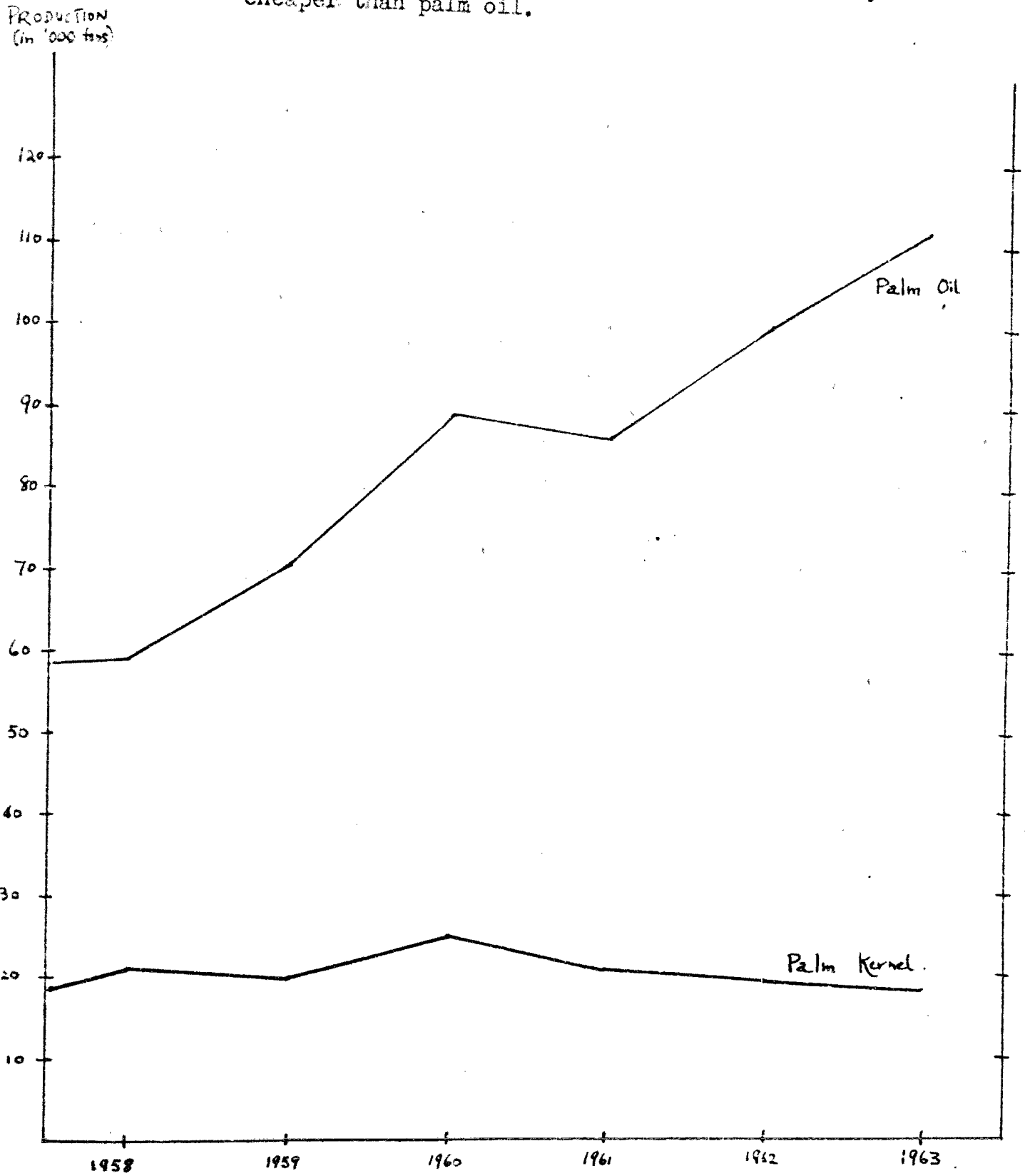


DIAGRAM 4-1. NET EXPORTS OF PALM OIL AND PALM KERNELS. (FED. OF MALAYA)

(b) Value of Exports (Comparison with Coconut)

The total value of net exports has increased greatly. In the early 1950s palm oil exports had a net export value smaller than coconut export. Latest figures show that the value is much higher than that of the coconut exports. See table 4-2.

TABLE 4-2

VALUE OF NET EXPORTS OF OIL PALM PRODUCTS
AND COCONUT PRODUCTS

(in M.\$ Malayan)

Year	Oil Palm	Coconut
1954	36.7	48.6
1957	49.6	35.2
1958	51.5	27.2
1959	57.5	30.9
1960	68.8	44.3
1961	65.3	31.7
1962	68.6	20.8
1963	75.3	25.2

Source: Monthly Statistical Bulletin.

For example in 1964, coconut exports had a value of 48.6 million Malayan dollars while oil palm products fetched an export value of only 36.7 million Malayan dollars. In 1963 the situation was reversed. Oil palm had an export value of 75.3 million dollars while coconut products had a value of only 25.2 million dollars. See Diagram 4-2.

III Local Consumption

Malaya consumes only a very small proportion of the palm oil and palm kernel produced. During the decade of 1950 - 1960, she consumed only a very small amount of palm oil. Most of the palm kernel in this period was exported. However, the beginning of the sixties saw the increased local consumption of palm oil and palm kernels. Table 4-3 and Graph 4-3 indicates the trend of local consumption during the past years.

EXPORTS
(in '000 tons)

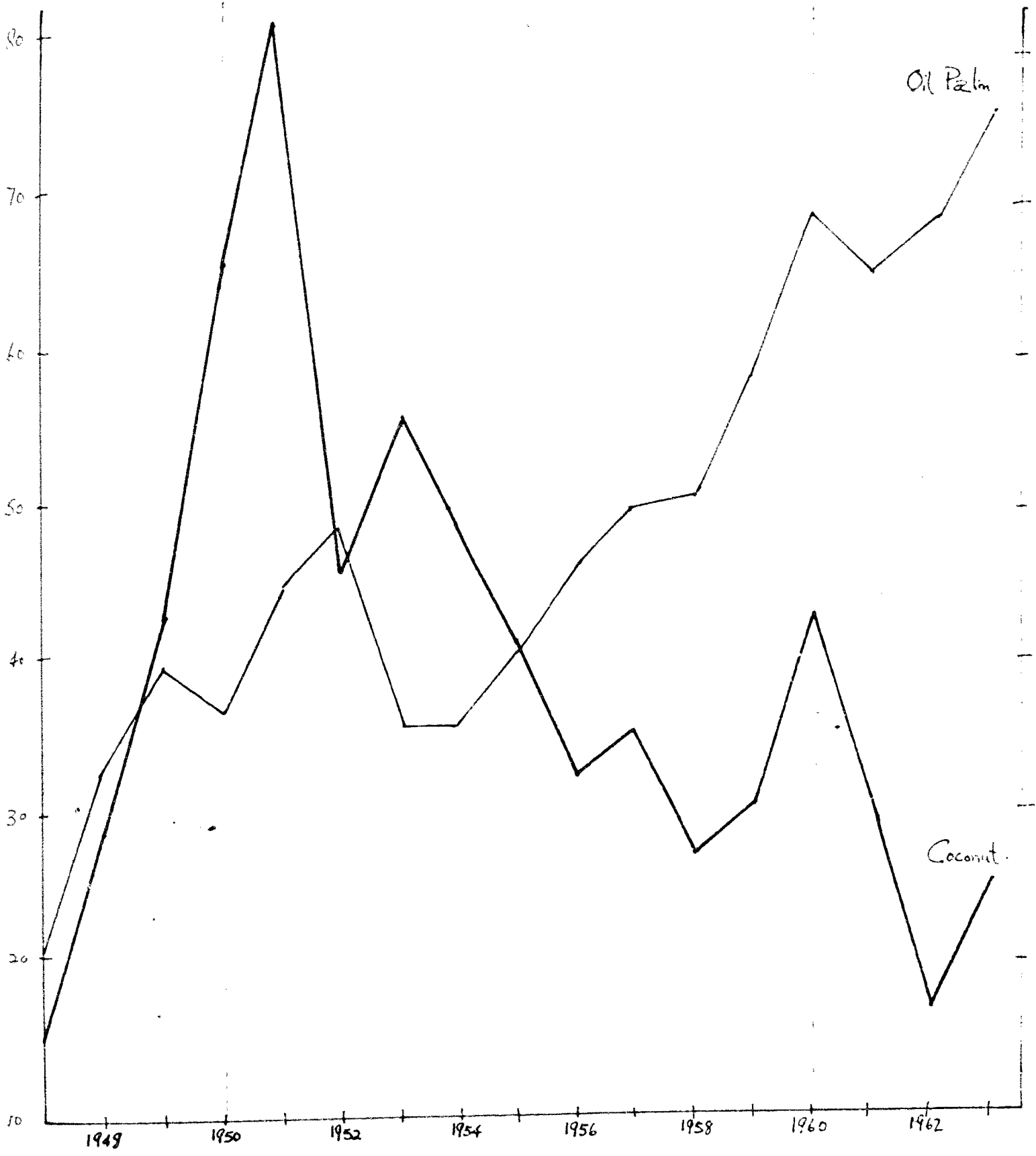


DIAGRAM 4-2: VALUE OF NET EXPORTS OF OIL PALM AND COCONUT

SOURCE: Monthly Statistical Bulletin, March 1964.

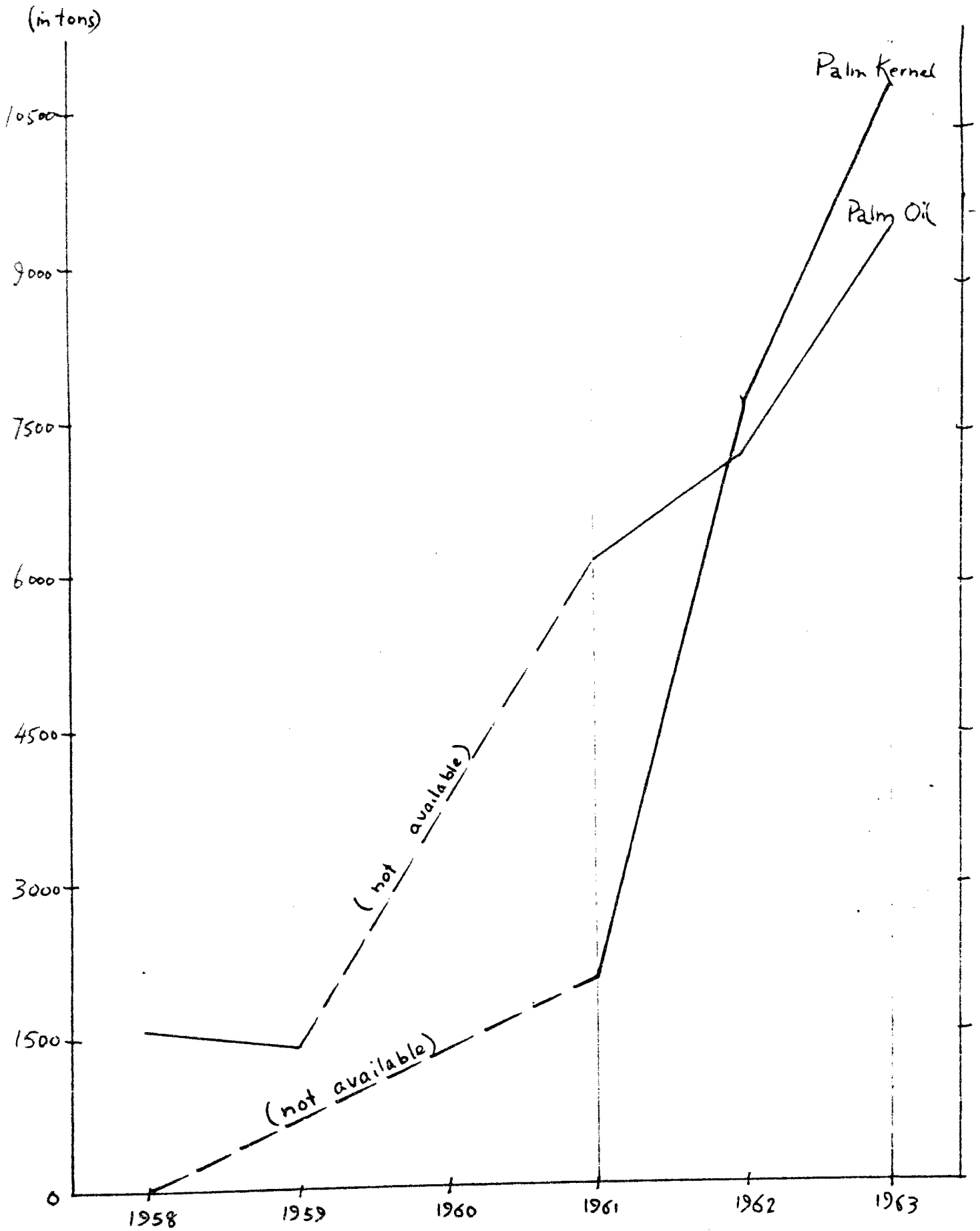


DIAGRAM 4-3: TREND OF LOCAL CONSUMPTION OF OIL PALM PRODUCTS

TABLE 4-3

ESTIMATED LOCAL CONSUMPTION OF OIL PALM PRODUCTS (FED. OF MALAYA)

Year	Palm Oil	(tons)	Palm Kernel
1954	3751		531
1957	543		-
1958	1681		-
1959	1436		-
1960	-		-
1961	6368		2129
1962	7237		7560
1963	9539		10661

Note: The figures are calculated from "Production plus imports less exports".

Source: Monthly Statistical Bulletin.

The main local consumers of oil palm products are the local manufacturers of soap, detergents and margarine. Most of the oil is bought by companies such as The Lever Brothers, and Lam Soon and Co. Ltd. The agents for the sale of oil palm are many such as Socfin Ltd, Harrisons and Crosfields, and Guthries (M) Ltd.

The trend of local consumption is increasing over the past 3 years. This seems to be a good sign for it would help to bring about the brighter prospects of the oil palm industry.

Bulking and Marketing of Oil Palm Products

The bulking of palm oil is done by the bulking installation. The oil is tankered either by road or by rail to the bulking installation. The oil is accompanied by invoices stating the content of Free Fatty Acid and its weight. These are confirmed by the installation's chemical analyst. The amount and quality of the oil are recorded and a note is made as to who the producers are. The oil is then refined and put into drums for export.

The manner of disposing of the oil is rather simple. There is a Malayan Oil Palm Selling Pool in London which contacts all future buyers of palm oil. They report the potential buyers to the Palm Oil Pool in Malaya and cargoes of oil are sent out to the various buyers all over the world. However, the bulking installation has to report all quantities of oil available to the Sales Committee of the Selling Pool in London. This is done so that the Sales Committee in London knows

what quantities of oil to sell and how much oil is available at that time so that a contract can be made. This method of sales is advantageous for it enables all producers to gain the same average price. It also helps in the selling of oil in bulk. Small producers would benefit from such a procedure.

The Malayan Oil Palm Selling Pool in London is made up of a few representatives from palm oil selling interests in Malaya. The pool in London is aimed at exploiting traditional selling outlets while not neglecting the benefits of new markets. They therefore provide an element of stability in the prices of Malayan palm oil. The Pool in London sells most of Malaya's palm oil to the United Kingdom, Canada and India. The Pool also looks out for competition from other palm oil producing countries as well as other animal and fat producers.

Malayan palm kernels are sold separately by the producers. The kernels are put into sacks and are exported mainly to Japan, the United Kingdom and India. Palm kernels save the expenses of tanking and are thus marketed more cheaply than palm oil.

The costs of marketing the product are relatively small when compared to the costs of the product. From the gross proceeds of the sale of palm oil, various costs are deducted. Such costs are brokerage charges, ocean freight, marine insurance, bulking costs and selling agents' commission. The net proceeds are then distributed to the producers who have sent their oil for bulking at the installation.

Prices:

The prices of palm oil are quoted mainly by the Pool in London. Malayan palm oil and palm kernel prices have been rather stable over the past years. Except for minor interruptions in the oil market, prices have been relatively stable. In 1962 prices of palm oil were low because of competition from other raw materials. This was however only temporary and the end of 1963 saw the rise of palm oil prices. Prices of palm oil are relatively stable due to the fact that supply and demand conditions do not change much. There is no over production of palm oil and yearly increases are relatively gradual. Demand conditions however depend upon the presence of substitute fats and oils. Such fats and oils enter the market temporarily and thus causes the price of palm oil to fall. Table 3-4 gives an indication of the stability of the prices of palm oil and palm kernel

Although the yearly average prices are falling it can be seen in Diagram 3-4 that the prices for the year 1963 show a gradual increase, from \$532.30 per ton in the last quarter of 1962 to \$616.70 per ton in the last quarter of 1963. Thus there is hope for a price recovery in the coming years judging from the price trend in 1963.

TABLE 4-4

PRICE OF PALM OIL AND PALM KERNEL

MALAYAN DOLLARS PER TON (F.O.B.)

Year	Palm Oil	Palm Kernel
1959: Average	660.70	475.40
1st. Quarter	631.60	406.50
2nd "	669.90	509.25
3rd "	706.00	476.00
4th "	635.30	510.00
1960: Average	621.20	455.10
1st quarter	642.20	510.00
2nd "	622.10	517.00
3rd "	603.60	403.00
4th "	617.10	390.50
1961: Average	636.40	424.20
1st quarter	623.00	357.25
2nd "	641.70	366.25
3rd "	654.80	358.25
4th "	626.10	315.25
1962: Average	592.90	314.40
1st quarter	636.00	312.00
2nd "	622.50	309.50
3rd "	580.80	322.75
4th "	532.30	313.75
1963: Average	589.70	369.40
1st quarter	559.40	339.25
2nd "	581.00	391.25
3rd "	601.50	369.00
4th "	616.70	378.00

Source: Annual Reports of the United Planting Association of Malaya.

PRICE
(DOLLARS PER TON)

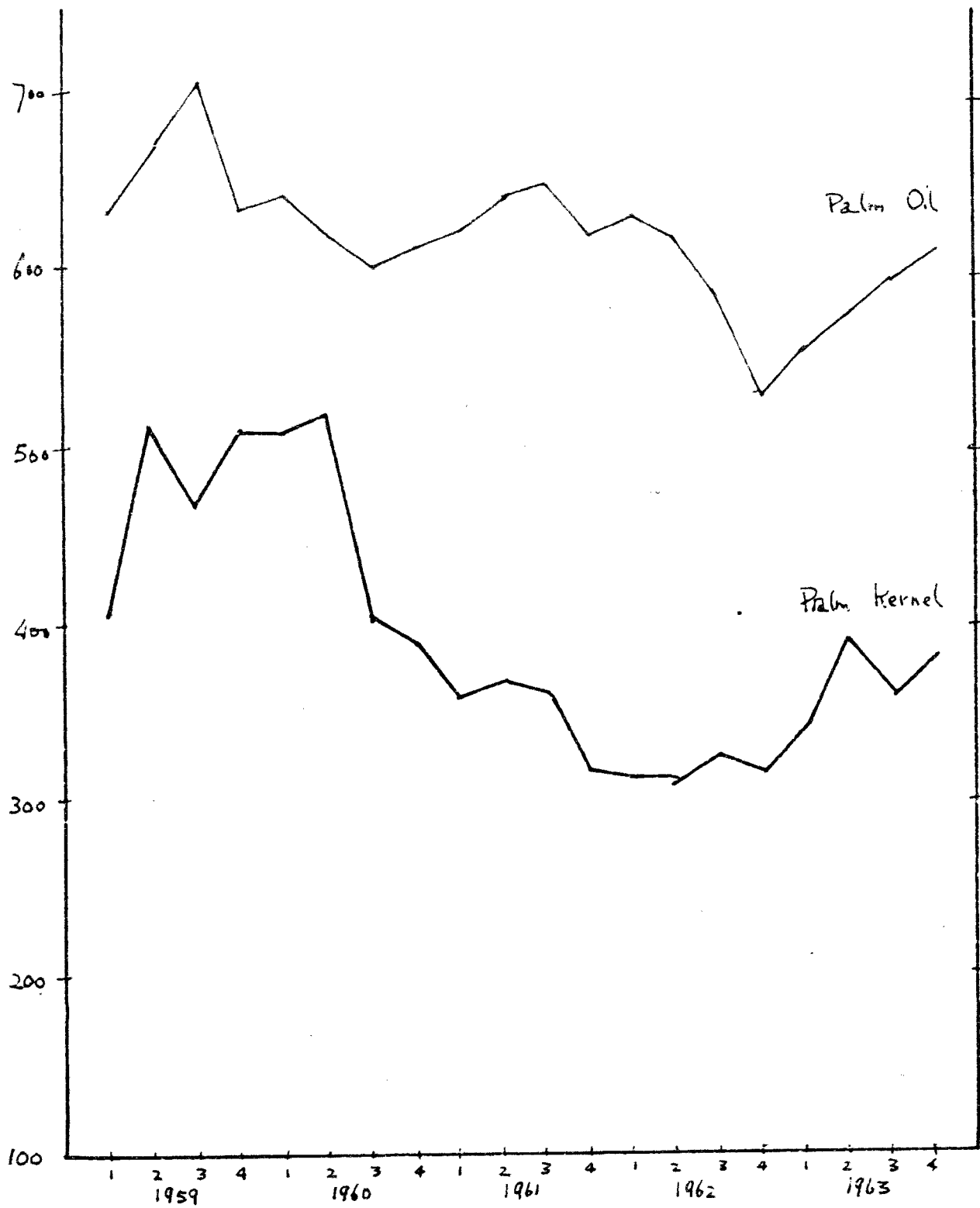


DIAGRAM 4-4 : PRICE OF PALM OIL AND PALM KERNELS.

SOURCE: THE UNITED PLANTING ASSOCIATION OF MALAYA: ANNUAL REPORTS