

# The Political Economy of Palm Oil

## Poverty, Protests & Politicization

New York Southeast Asia Network  
 Thursday, 14 September 2023 from 12.00 – 1.30 p.m. (Hybrid)  
 NYU Wagner - Mulberry Conference Room, 295 Lafayette Street, New York, NY 10012

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### About

Palm oil, worth over USD 100 billion a year as a raw material, is shrouded in ESG, health and geopolitical controversy. This iconic commodity of Southeast Asia is tied with the rise of political Islam, while it has also become an essential bulk commodity the world over, and popular with farmers from Malaysia to Mexico.

Yu-leng Khor, senior economist at Segi Enam Advisors, will examine palm oil's role in developmentalism - lifting millions from poverty, its amazing spread of applications (in thousands of consumer products and in renewable energy), and its success in the American soy versus palm tussles of the 1980-90s. Currently, palm oil must be seen in an oligopolistic and oligarchic context, with trade boycotts (perceived and real), resistance to going green despite its recent non-deforestation success story, and the surge of rural political Islam in Indonesia and Malaysia, with the economic trap of an over-reliance.

Y.L. Khor, Segi Enam Advisors, 14 Sept 2023

### In this talk

- About palm oil. What & where?
- CONTROVERSY.** Chronologically, the health "veg oil war" with American soy, recent ESG & health issues.
- ESG/green markets. Traceability, Unilever case study, RSPO/green premiums are buoyant. Deforestation is down, EUDR doable. But **PROTESTS!** Wary of Western bias.
- POVERTY & POLITICS.** Absolute and relative poverty. Governance & domestic high politics in Indonesia. Developmentalism & domestic low politics. Malaysia Felदा case study.

Some questions: Is palm oil in a polycrisis? Domestic politics & political Islam? What are the green supply chain positives? Is palm oil here to stay?

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## Palm oil & its controversies

### Shrouded in controversies? Western bias & trade protectionism? Lacks diplomacy vs unconditional demand China, India feel-good G2G MOUs?

Annual global consumption c. 9kg / capita (76 mill tonnes / 8.1 billion people). Tree crop, for a 15-25 year cycle. From West Africa, it is a key industrial agriculture and rural development crop for Indonesia, Malaysia etc. Smallholders number in the millions, migrant workers are also a key element. Of increased political and geopolitical sensitivity. Global N vs S and S vs S too.

Khor Reports, **SUSTAINABLE COMMODITIES:** Public interest in sustainable palm oil, coffee, cocoa, rubber, soy & beef drops c. 25 years, relative interest per month. Palm oil (thick green line) broke out in the early 2010s and skyrocketed in 2018-2019, outstripping interest in coffee (dark brown line), which has peaked so stark. Palm has had a respite since Covid-19, but remains elevated compared to soy, beef and others. From our interviews, US and other supply-chain buyers seem more positive on compliance for palm (with its traceability than soy and beef, in influential headlines, recognition of the role of palm oil seems to be better (grudgingly) accepted).

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### Indonesia & Malaysia (c. 85% global supply), rubber/rice to palm, deforestation & peatland (recently de-risking), TH & PH post-conflict story?

**Palm Oil Production by Country in 2022**

Rank	Country	Production (1000 MT)
1	Indonesia	41,000
2	Malaysia	10,000
3	Thailand	5,400
4	Colombia	5,100
5	Nigeria	4,400
6	Guatemala	3,600
7	Philippines	3,500
8	China	3,000
9	Costa Rica	2,800
10	Brazil	2,800
11	Canada	2,800
12	Democratic Republic of the Congo	2,800
13	India	2,800
14	China - The Democratic Republic of the Congo	2,800
15	Costa Rica	2,800
16	Peru	2,800
17	France	2,800
18	Kenya	2,800
19	Philippines	2,800
20	Spain	2,800
21	Guatemala	2,800
22	Spain	2,800
23	Democratic Republic of the Congo	2,800
24	Guatemala	2,800
25	Kenya	2,800
26	Kenya	2,800
27	Togo	2,800
28	Kenya	2,800
29	Kenya	2,800
30	Kenya	2,800

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Anti-poverty developmentalism, Colombia (post-conflict?), farm income, import substitution.... Non-deforestation approaches/claims proliferate

Colombia Palm Oil Production  
Ecuador Palm Oil Production  
India Palm Oil Production

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Palm's "OPEC" strategy? Supply & demand tussles. India's tactical move on Malaysia. China charms with G2G (more than BAU?). West perceived as small (single digit) demand, based on basic raw mat trade; supply-chain basis c.40%!

CPOPC aspires to be the OPEC of palm oil? Sep 2023 concerns on price, ahead of Indonesia elections of 2024

India bans Malaysian palm oil as diplomatic rift widens

Retailation for Malaysian PM Mahathir Mohamad's comments on Kashmir & citizenship, 2020

Mahathir as "spoon a day" ambassador of fresh palm oil

Indonesia, Malaysia push biofuel to offset palm oil price downturn

Falling prices hurt companies, risks loom from El Nino and Java wildfires

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Scared by the "Veg oils War" 1986-89 with America (impasse with soy on saturated fats), palm since has THREE huge wins on trans fat (1990s-2000s) and biofuels/RE push I & II (in 2010s & now), and a David vs Goliath complex.

**The Washington Post**  
Remembering Dies in Darkness  
A SLICK WAR OF WORDS

**American Soybean Association/ASA's tropical grease "smear" against palm and coconut oils hit harder in 1988.** Malaysia & others had been opposing food labelling. David vs. Goliath.

**Realisation and regulation against unhealthy trans fats was a boon to palm oil.** Labelling rules came in 2003. Scientists were already questioning trans fats in the 1970s. Trans fats took c.20 years to label, and c.20 years to regulate.

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Palm has grown up, but still fixes on the US/soy villain? Bias of Western opinion, and unfairness of the West's past deforestation...

*Growing tall in tropical hush, A source of wealth for some, But for the rest, just a source of numb. The orangutan's home you've taken, Their lives and families forsaken. The forest burned, the air polluted, All for a product that's overproduced. The rivers poisoned, the land scarred, All for a product that's over-harvested, The indigenous people displaced. All for a product that's not even based. But still we buy and still we use, Ignorant of the damage we choose, But now is the time to change our ways, And make a better future for our days. Let's choose sustainably grown, And protect the earth, our only home, For the sake of all living things. Let's make a change and spread our wings. A sonnet by ChatGPT, Feb 2023*

*A bean of humble origins, Born in the fields of Asia, Soy, you've grown to be so much more. A crop that feeds the nation. With roots deep in the soil, You've risen to the sky. A symbol of strength and growth, A source of nourishment, so vital and vital. In every form, you're a wonder, From tofu to tempeh, A versatile ingredient. That can be a meat's mainstay. Your oil lights up the kitchen, Your milk froths in the cup, You're a protein powerhouse, A food that's always up. Soybean, you're a true survivor, A crop that's here to stay, A shining example of what future Can do when it's on its way. A sonnet by ChatGPT, Feb 2023*

Animal-based foods tend to have a larger carbon footprint

**Veggie carbon footprint rankings:**

- Palm oil
- Soybean oil
- Olive oil
- Rapeseed oil
- Sunflower oil

Palm oil community is quite upset about lack of West's attention on own meat-dairy problem. Interested in push back on ESG. Seeks to challenge carbon footprint measurement, having relied for quite long on its oil yield per hectare argument. Positive: Signs of Western acceptance, at policy level?

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ESG issues & actions? N-S focus on E&S, 20%+ global supply is RSPO certified. Regulators act - EU non-deforestation, US CBP forced labour.

Palm oil isn't as bad as you think, DW Planet A 488K subscribers, 446K views 1 year ago

The Everyday Ingredient Destroying the Planet, Bloomberg Originals 3.51M subscribers, 129K views 4 months ago

Going beyond our palm oil supply chain for people and planet | Unilever 20.9K subscribers, 723 views 5 months ago

U.S. lifts import ban on Sime Darby Plantation products

3.3 minutes video on landscape efforts from buyers-suppliers who have "maxed out" RSPO certification efforts?

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Indonesia's takes policy leadership, push on political-governance. Deforestation commodity price de-linkage. Palm snags domestic high politics on cooking oil.

Figure 4: Commodity prices vs. deforestation in Indonesia

Tree cover loss in flux and on decline. Commodity prices obtained, recent surge.

De-linking?

Under President Jokowi, moratorium on large concession & on peat land development.

AGO names 3 palm oil groups suspects in corruption case

Peatland restoration, fire prevention & big fines helped Indonesia's NDCs. Norway deal. Jurisdictional & other approach with EUDR's 31 Dec 2020 cut-off.

Push on domestic bio diesel E30, infrastructure including for smallholders.

Cooking oil 'cartel', corrupt individuals and now companies?

SIAA Haze Outlook 2023

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Health. EU & S-S food regulators. Saturated fat, front of pack traffic light warning. Contaminants. Palm is the victim of a "never ending demonising"?

Why Palm Oil Could Be Dangerous For You | Vantage with Patti Sharma, Firstpost 2.08M subscribers, 179K views 7 months ago

Singapore subsidizes canola to reduce palm in cooking oil on saturated fats fear, 2014

Pakistan must ban limit on hydrogenated palm oil, 2017

"Cancer cookies" testing calls for safer ingredients, HK, 2019

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Achievements versus protests

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Certification, 2004 RSPO launch. Supply chain transparency, inclusive-expansive universal mill for mill sourcing e.g. Unilever, 2018 vs 2023. Mega trader Wilmar c. 15%, etc. 20 years on, regulators to audit claim on 5-10% volumes...

2018: "A quick tally of all of Unilever's palm oil mills shows that of the 1,431 mills, 1,135 mills are not certified by RSPO for sustainable production practices. This equates to 79% of all Unilever palm oil mills. Only 296 mills (21%) are certified." Writes space-intelligence.com.

2023: Unilever website has the names and locations of more than 1,655 mills.

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Why? Traceable, to where? Complex supply chains. Inclusion of smallholder-farmers (40-90% of production), a chronic problem in high certification @sub-15% of 20-22%? Smallholders focus on credits, struggling in physical supply chains.

Eyes on the Forest

6-7 dealers? Versus direct-short supply chain of 'captive'

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Palm oil positives. Climate/GHG actions are known. New high "green"/ RSPO compliant areas are 61% planted (43% open/grassland/shrub, 17% food/tree crop, 1% forest) & 24% conservation.

What is interesting too is the new profile of new development area for RSPO members being 43% open, grassland and shrub/cropland with 61% planted and 24% overall conservation areas.

PalmTrack: Summary of new planting development under RSPO rules

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Thai palm is 90% smallholder, de-facto "green"? Gross LUC 3.5-5% on forest plus 10-14% on unused land, 2000-2012 for key mid-south. But rubber ILUC? Thai emerging as notable exporter, first to India but how about to ESG buyers?

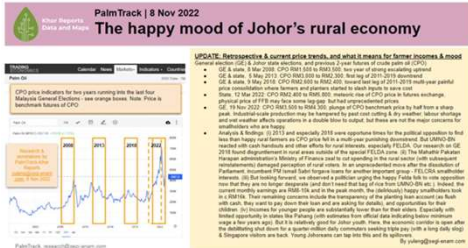
SEA's rubber and oil palm indicators, 1985 to 2019

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### The (3rd generation?) "palm oil trap"? 2004-present

Comparison with Indonesia, Bloomberg (2023), at 3min and 5 min, a farmer with 6 hectares in Riau, reports monthly income range: from being higher than a mid-level civil servant to not much more than hard labour (when prices are lower).  
 But younger rural income earners seem to be at minimum wage? Rural population building up, but Johor (close to Singapore) youth incomes are better.  
 With Malaysia voting age lowered to 18 years and with automatic registration, the youth vote influx brought in a different perspective.



### Challenges & prospects

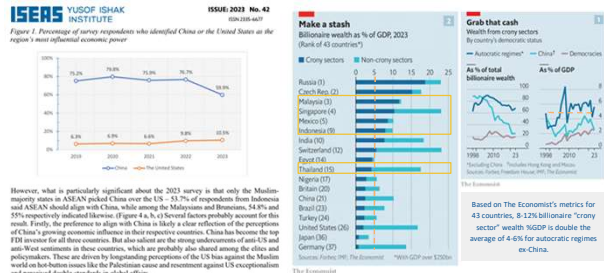
### Palm faces questions but market resilient

Palm oil in a polycrisis, but solutions at hand and demand-usage seems resilient. Palm oil's wide and deep usage give it remarkable resilience. Its popularity with farmers in new regions is also positive. There are clear action plans for reducing its carbon footprint, net zero frameworks, and conservation potential. The accommodation of regulations like EUDR with 31 Dec 2020 cut-off (where indicative cost of compliance is not seen as high, even for smallholders), and the international headline acceptance of palm oil (grudgingly) are positives. Comments from big buyers point to their greater worry about other commodities nowadays! Along with the renewable energy push, demand for palm products marches on, into other RE like sustainable aviation fuel and biomass.

### Challenges

- Processing-trading (oligopolistic), SMEs, farmer sectors. SEA's oligarchic context.
- Dynamics of federal-state, state-business relations, state capacity. GLC/SOEs.
- Political will? Top down or bottom-up / inclusive / stakeholder driven?
- Indonesia palm smallholders seek market access (at reasonable cost for 31 Dec 2020 non-deforestation).
- Forced labour compliance could add +30 to 50% on wage base with no systemic reform, e.g., Malaysia?
- Geopolitical perceptions and political issues can add complications, e.g. nationalistic political Islam.

### Strong opinions and oligarchic contexts



### Prospects

- SEA responding to green/compliant supply-chains: E.g., palm 20% voluntary global demand could see add-on 20% with EUDR-like regulatory? Big companies highly responsive, targeting 10-20% margins plus value-add.
- SMEs may be disconnected, but export-competitive origins can leapfrog with policy, data, bottom-up stakeholder help to gain market share. E.g., Vietnam/Thailand/Indonesia vs. Malaysia on palm, wood, solar PV, even durian!
- US-China trade war issues? China supply chains responsive. Opportunity for SEA. But anti-dumping and other trade issues affect solar, used cooking oil etc. Private sector runs ahead, as always.
- A key minor segment can fund the overall ESG/green transition. Supply chains are not balanced, key choke points are opportunities.
- Amidst geopolitical/ culture tussles, supply-chain pilots for engagement would be important, e.g. rural, palm. US versus China culture/style.

## Internal warning signs from Malaysia political landscape



**Palm oil in a political crunch.** Indonesia high politics has reacted badly to the cooking oil crisis in Indonesia, with perhaps unanticipated repercussions for companies accused on cartel and corrupt behaviours. But the fines seem tolerable. In Malaysia, palm oil is caught in a domestic political crisis/trap, as the Unity Government coalition loses voter traction in high Felda/palm oil areas to candidates of political Islam. From an economic perspective, policy makers and politicians should have started on rural reform, effectively shifting from this over reliance on the oil palm monocrop strategy long ago. Even before covid, rural youth incomes indicators were woefully in minimum wage territory. The heavy reliance on migrant workers was not only a forced labour risk but a political risk. Rural subsidy and diversification efforts have fallen short and no one wants to talk about farmer pricing power. Many seem to agree that opportunities for rural youth have been inadequate. Politicians interested in votes should take a hard look at youths gaining from higher specification and green certified agricultural products and global partnerships for more dollars per planted area with good local economic spin-offs.

# Q&A

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