ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
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THE PALM OIL SITUATION

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PALM OIL HAS BEEN IN THE NEWS recently because of large imports into the United States that are linked to relatively low prices of soybean oil and soybeans. Palm oil imports increased from 89 million pounds in the 1966-67 crop year to 757 million in 1974-75, and may be as large as 900 million in 1975-76. The 811-million-pound increase is equal to the oil content of 76.5 million bushels of soybeans.

Palm oil is an edible oil used in making the same products for which soybean oil is used. Palm oil is a tree nut oil produced in the tropics. The most concentrated production is in Malaysia and Indonesia, although commercial production is increasing in several African countries. The palm trees begin to bear harvestable fruit about 5 years after planting, and continue to produce for about 25 years. Once started, the process continues for a long time; trees planted 5 years ago cast a long shadow into the future. Once the groves are planted, the cost of producing palm oil is quite low.

The trend increase in palm oil production for the last 10 years has been about 200 thousand metric tons per year, but is accelerating so that an annual increase of about 280 thousand tons is expected for the next 10 years. This will be from trees that have already been planted.

Thirteen major edible fats and oils move in world commerce. Soybean oil comprises about 25 percent of the world production of all edible fats and oils. Butter is second at 13.5 percent. Lard, sunflowerseed oil, peanut oil, cottonseed oil, rapeseed oil, coconut oil, and palm oil each make up 6.5 to 8 percent of world production. Of the thirteen, only palm oil and soybean oil have increasing production trends. The average increase in soybean oil has been 650 thousand tons for the past 5 years, about three times the rate of increase in palm oil.

World consumption requirements have been rising at the rate of 800 thousand tons per year. A part of the growth in market size that soybean oil has enjoyed for many years is being taken by palm oil. Should the expansion of palm oil plantations continue, the entire market growth factor could be preempted.

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The U.S. is not a logical importer of palm oil because it is a major exporter of fats and oils. We bring in palm oil and ship out other fats because the U.S. has no import restrictions on palm oil while other countries do; also, U.S. technology of use is more adaptable than that of other countries. But the effect is the same. If the U.S. did not import palm oil, it would go elsewhere and the U.S. would be able to export less soybean oil.

Price relationships have recently changed in a way that will greatly reduce our palm oil imports. Last October, soybean oil sold for 24 cents per pound in European markets, while palm oil was 18 cents. The two oils are now equal at 17 cents. The reduction in soybean oil prices will divert the flow of palm oil from the U.S. to other markets.

Decreasing palm oil imports will not help the prices of soybean oil and soybeans. These have gone down because world production of all fats and oils is increasing. The production increase in 1975-76 is about 1.7 million metric tons, compared to a requirement increase of about 0.8 million. There will be an accumulation of stocks, primarily soybeans and soybean oil, and such stocks greatly affect prices. What happens to oil prices beginning in the fall of 1976 will depend on the size of the oilseed crops produced in 1976.

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