ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801 *August 4, 1976*

PALM OIL: THE LONG-TERM OUTLOOK IN MALAYSIA

AT A CONFERENCE IN KUALA LUMPUR, MALAYSIA IN JUNE, 1976, it was revealed that the long-term projection for Malaysian palm oil output calls for a production level of 6.6 million tons by 1995. By comparison, Malaysian palm oil output during calendar-year 1976 will total about 1.6 million tons, while the oil contained in the 1976 U.S. soybean crop will amount to roughly 7.1 million tons. Malaysia currently produces 43 percent of the world's palm oil and 74 percent of the world palm oil exports. The corresponding figures for 1965 were 12 percent of production and 26 percent of exports.

The total cost of producing palm oil in Malaysia, including estate development, is currently running 9 or 10 cents per pound. This varies with prices, since workers are paid partially on the basis of the value of their production. An export levy of 21 percent of the previous month's export price is collected by the Malaysian government. Thus, at today's cost levels, a palm oil price below 13 cents per pound, FOB New York, would be required to discourage increased Malaysian palm oil production. However, due to the long planning horizons involved in estate enterprises such as palm oil, discouragingly low prices do not imply immediate reductions in the growth rate of output. A protracted period of depression in world oil prices would be required to stop the expansion of Malaysian palm oil output.

The low cost of palm oil is more the result of high productivity per acre from hybrid trees developed in the early 1960's than of a low wage structure. In 1975, when crude palm oil prices averaged 19 cents per pound at New York, the average field worker on a Malaysian government oil palm estate made about $2,300 after deductions for his housing, medical care, the repayment of estate development costs, and the costs of mill operation. During a year, this worker can harvest between 45 and 50 thousand pounds of palm oil, about 5 thousand pounds of palm kernel oil and about 7 thousand pounds of palm kernel meal. Thus, one Malaysian estate worker can produce the oil equivalent of 160 acres of soybeans producing 30 bushels per acre. The palm kernel meal produced by one Malaysian estate worker is, on a volume basis, equivalent to only about 5 acres of soybeans at 30 bushels per acre. Furthermore,

palm kernel meal, which is only 18-percent protein compared to 44 percent for soybean meal, sells at a considerable discount to soybean meal in world markets.

If Malaysia carries out its plans, there may be long-term impacts on world oilseed markets. Production adjustments will be most pronounced for those oilseeds with high oil and correspondingly low protein-meal contents. Canadian rapeseed acreage, for example, fell from 3.95 million acres last year to 1.94 million acres this year.

In the long run, even if the Malaysian palm oil output projections are correct increased U.S. soybean output will be profitable because of the soybean's unmatched ability to produce the high-quality vegetable protein needed by a growing world livestock sector.

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8/76-19,400

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