

POTS
2nd INTERNATIONAL PALM OIL
TRADE FAIR &
SEMINAR *2008*

Changing Marketing Landscape - Challenges for Business Sustainability

24 - 26 August 2008

**WHY PALM NEEDS BIOFUEL DEMAND FOR ITS
LONG TERM SUCCESS**

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PLENARY SESSION

Why Palm Needs Biofuel Demand for its Long Term Success

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Abstract

The recent debate on the subject of Food versus Fuel has been marked by misguided comment. There has been a tendency on the part of politicians to blame high food prices on biofuels. They have conveniently over-looked their own neglect and mis-management of agriculture for the last several decades. For the last 30 years, prices of food grains and oilseeds have suffered a net annual decline in real terms of about 2.5 percent. In other words, until the recent price increases, the nominal price of oilseeds and foodgrains remained stagnant for 30 years. This has resulted in decline of agriculture in the third world and led to poverty and distress in rural areas. Agriculture has been the last resort of the poor and has ceased to be the vocation of choice. Biofuels have gone some way to rectify this imbalance and to restore a semblance of remunerative earnings for farmers and planters. This paper will put forward the case for a balanced and enlightened approach to biofuels. It will endeavour to set the record straight on the contribution of biofuels towards rural prosperity and the alleviation of poverty amongst farmers and farm workers.

Why Palm needs Biofuel Demand

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Full title of my paper

- Why Palm needs Biofuel Demand for its Long Term Success

Background

- It is exactly 90 days since my last speech in Jakarta. What a difference in 90 days !
- On 4th June I decided on the title of this paper – Why Palm Needs Biofuel Demand.
- I could not have foreseen how appropriate this subject would become after the sharp correction in palm prices !

My forecasts so far

- Been very lucky and got forecast right for last 30 months
- Last forecast of 4000 Ringgits by end June was narrowly missed

My Medium Term Forecast of 4500 Ringgits

- CPO at 4500 Ringgits by Feb 2009 ?
- UNLIKELY unless
- We get an El Nino immediately or
- Nymex crude jumps to over \$ 150 per barrel
- Ringgit collapses – all unlikely so
- That Forecast is Abandoned

The Lull before the Storm

- Market transactions in June dropped off
- Market was affected by turn in US Dollar, Decline in Energy prices, Change in sentiment towards Energy, Slowdown in G8 and BRIC economies and Change in approach of Hedge Funds

Signs of Demand Destruction

- Saw evidence in June that the high prices of Q1 2008 began to reduce demand from late Q2 onwards
- Saw demand destruction in Sunflower oil, Soya oil and Palm oil
- Palm prices reacted first and hence held on to demand better

Ideal Weather

- From mid June we had Almost Ideal Weather everywhere
- Out of 10 major regions, not one has any problem at present
- Northern hemisphere crops are getting bigger – rapeseed & sunseed

Palm High Cycle

- High Cycle of Palm production should have ended latest by September but appears it will stretch to October or even November
- Malaysia 2008 will exceed 17.4 mln mt
- Indonesia 2008 will exceed 19 mln mt

The Case for Biofuels

- Only a few months ago, people thought world would run out of food
- Now all that has changed
- Case for Biofuels is as obvious as the case for Renewable energy

International Energy Agency

- In 2008 world biofuel production will be 1.35 mln barrels per day
- By 2013, it will rise to 1.95 mln bpd
- Biofuels will contribute 50 % of non-OPEC incremental supply growth

Why Biofuels

- Get rid of misconceptions about plantations and about biofuels
- Palm trees are most productive and make best use of scarce arable land
- Make agriculture profitable

Case for Palm Diesel

- Traditional world Food Demand up 4 mln tonnes annually
- Bio diesel demand up about 2 mln mt
- What happens if Palm production rises by 5 mln mt in a year of good weather ?

World Incremental S&Ds

- 2007-08 Supply has risen stronger than expected
- Food Demand of 1 mln mt and Biofuel Demand of 0.5 mln mt has been lost due to high prices
- 2008-09 Supply is rising even more strongly

CHINA

- 2007 Rapeseed crop was 8 mln and not 10 mln mt ; 2008 Rapeseed crop is 11 mln mt
- So Rapeseed supply is up 3 mln mt and not 1 mln mt – this explains current situation in the domestic market
- Soybean crop likely to be 18 mln

Incremental Supply

	07-08	08-09
• Soya oil	+ 1,800	+ 1,500
• Rape oil	- 500	+ 1,000
• Sun oil	- 1,000	+ 1,500
• Palm	+ 4,500	+ 2,500
• Total Increase	+ 5,450	+ 6,800

Incremental S&D 07-8

- Food Demand up 3 mln mt only
- Energy Demand up 1 mln mt only
- Supply up 5.45 mln mt
- Demand up 4 mln mt only
- Prices had to react and correct

Incremental S&D 08-09

- Food Demand up 4 mln mt
- Energy Demand up 2.5 mln mt
- Supply up 6.8 mln mt
- Incremental Supply exceeds Demand marginally
- Most of these figures are guesswork and can change drastically

Price Outlook

- Already seen a big correction
- Yet, RBD Olein at \$ 900 is historically very expensive
- Veg oils need to be cheaper than fossil fuels to attract strong demand and clear the surplus

Export Taxes

- Governments of Argentina, Indonesia and Malaysia have punished their industries needlessly
- What will Indonesia say when India levies higher import duty on palm once again
- Consumers in poorer countries felt betrayed by the high export taxes

Price Forecasts

- Deadly cocktail of rising supply and falling demand
- Markets are oversold and so could recover a bit
- It is critical to see the timing of the turn in the Palm production Cycle
- Argentina needs to export its stocks

Price Forecasts

- Pressure will come from sun oil and soya oil
- If crude stabilises around \$ 100 per barrel, BMD CPO futures need not go below 2200 Ringgits. Could see strong demand at that level
- Big drop expected in soya oil prices

Medium Term Price Forecast

- Prognosis for 2009 will depend on several new factors.
- My next papers :
 - Singapore WOOC on 11 September
- Mumbai GLOBOIL on 28 September

How does Palm win Biofuel Demand

- MPOC is doing a great job
- Plantation companies need to do more
- The RSPO is doing a great job and needs to be supported

CONCLUSION

- The biggest polluter of the environment is Poverty
- We do not need the crocodile tears of those who wish to keep us poor but environmentally pure
- Biofuel will ensure prosperity for palm
- Good Luck & God Bless