Drivers of global vegetable oils: A deeper look at palm oil

Workshop, June 29, 15:30-16:30 pm

Coordinator: Elizabeth Lunik

I. Background

World production of all major vegetables oils has increased significantly in the last decade. Palm oil represents the largest share of global vegetable oil production by volume, and is increasing at the fastest rate (fact check). It's a complex number of factors that drive vegetable oil production and prices Demand for palm oil as cooking oil and an added ingredient in food, household, and beauty products continues to increase, primarily driven by India, China, and the EU. Health concerns from developed countries (substituting palm oil for soybean oil) and attempts to use palm oil for biodiesel have arguably also increased demand. On the other hand, other factors have hampered its growth, since palm-based biodiesel is not competitive as a biofuel, especially against low crude oil prices. Finally, palm oil is subject to significant direct policy interventions in the form of mandatory blendings.

In this session, first we'd like to have an overview of global vegetable oil markets, including production trends, prices, substitutions, different markets and uses for these oils. Then we'd like to take a look specifically at palm oil, with the premise that it drives the prices of all vegetable oils. Indonesia and Malaysia account for 85% of global output. We'd like to understand what are the drivers of palm oil production in Indonesia, costs of production, productivity (raw oil/ha), and constraints and challenges to increasing production (such as land availability, environmental policies, production risks, etc.).

II. Goals

(1) Gain an understanding of the trends and dynamics of global vegetable oil markets (DHF)

(2) Come up with some hypotheses about if and how much palm oil does influences other vegetable oil prices (DHF)

(3) Understand the economics and drivers of palm oil production (IOPRI)

(4) Understand the COP of palm oil, specifically in regards to different producers (small scale, large privately-managed plantations, and large government-managed plantations) (IOPRI)

III. Key question to address

(1) What's been the evolution of the production and prices of these three vegetable oils in the last decade? (DHF)

(2) Palm oil is traded at a significant discount compared to soy and rapeseed oil. What is the economic rationale for this discount? (DHF)

(3) What are the key different markets (uses) and market shares of each of these oils? (DHF)

(4) What have been/are the drivers of palm oil production? What are the productivity indicators (yields, oil per ha) and costs of production of palm oil? How does productivity and COP vary across different size producers? (IOPRI)

(5) What are the constraints and challenges to increasing palm oil production, in Indonesia and elsewhere? (IOPRI)