CHEAP PALM OIL: GEOGRAPHY

NEWS: The end of cheap palm oil? Output stalls as biodiesel demand surges

WHAT'S IN THE NEWS?

Rising palm oil prices are driven by increased biodiesel demand, particularly from Indonesia, which has raised its palm oil blend mandate and reduced export availability. This has led to inflationary pressures, particularly in India, and concerns over environmental sustainability due to expanding oil palm plantations.

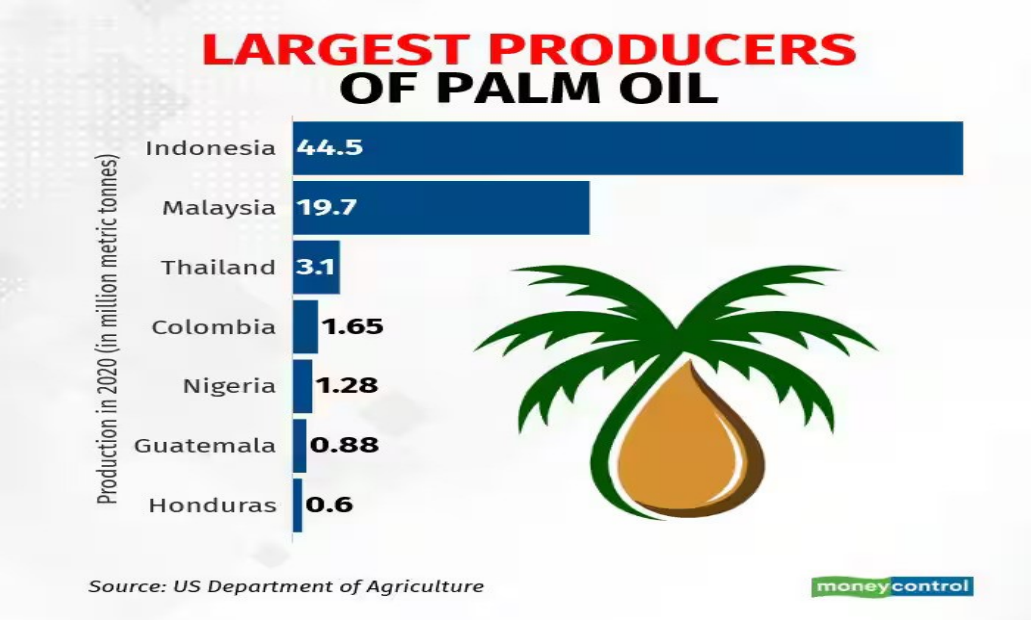
Rising Palm Oil Prices

- **Production Stagnation and Biodiesel Demand**: Palm oil prices, which have traditionally been lower than other vegetable oils, are now rising due to stagnant production levels and increasing demand from the biodiesel sector. Indonesia, the world's largest producer, has made significant changes that are impacting the global palm oil market.
- **Indonesia's Biodiesel Mandate Increase**: In 2024, Indonesia increased the mandatory palm oil blend in biodiesel to 40%, with plans to increase this to 50% by 2026. This move is expected to absorb a large portion of palm oil production domestically, limiting the supply available for export.
- **Impact on Palm Oil Exports**: As Indonesia increases its biodiesel mandate, it will significantly reduce its palm oil exports. The country's palm oil exports, which were 29.5 million metric tons in 2024, are expected to decrease to around 20 million metric tons by 2030. This reduction in supply will lead to higher global prices.
- **Historical Price Difference**: Historically, palm oil has been cheaper than other vegetable oils, with discounts over $400 per ton compared to oils like soybean oil. However, in recent months, crude palm oil (CPO) has been trading at a premium over crude soybean oil, at times exceeding $100 per ton.
- **Price Surge in India**: In India, the price of palm oil has surged significantly, reaching $1,185 per ton, compared to below $500 per ton in 2019. This increase in prices has contributed to rising vegetable oil costs, leading to inflationary pressures in consumer economies, and increasing the burden on governments trying to manage food costs.

Palm Oil: Overview

- **Native Region**: Palm oil is derived from the oil palm tree (Elaeis guineensis), which is native to West Africa. It is now grown extensively in tropical regions, particularly in Southeast Asia.

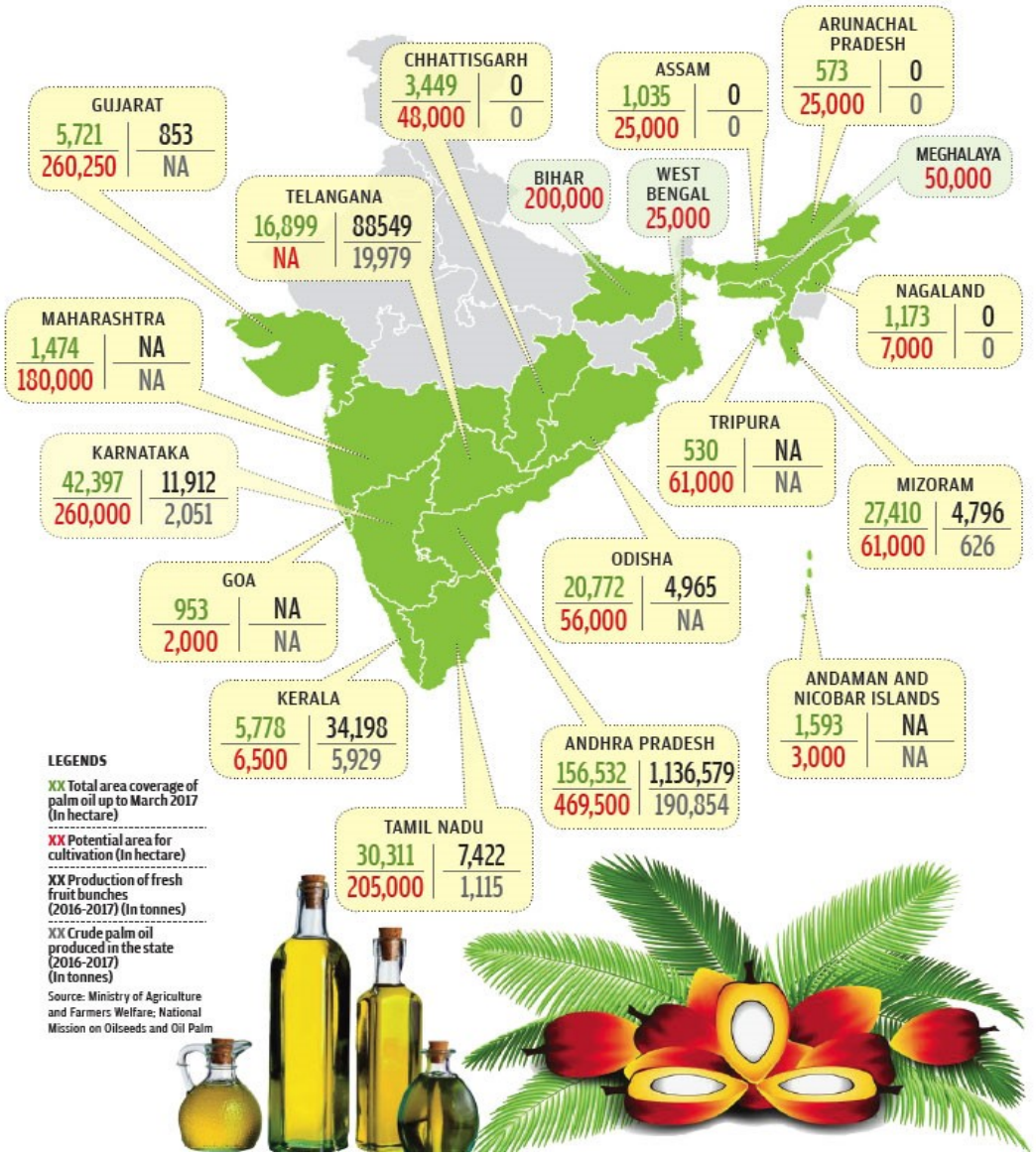
- **Growth Conditions**: Oil palm trees thrive in tropical climates, particularly within 20 degrees of the equator. They require high humidity and temperatures ranging from 24°C to 32°C. Oil palm also prefers deep, well-drained soils rich in organic matter, which supports its high yield potential.



- **Productivity**: Oil palms are highly productive and can yield up to 7,250 liters per hectare per year. This high productivity makes oil palm one of the most efficient sources of vegetable oil.
- **Leading Producers**: Indonesia is the world's leading producer of palm oil, accounting for about 60% of global production. Malaysia is the second-largest producer, and other countries such as Thailand and Nigeria also contribute to global palm oil supply.

Palm Oil Production in India

- **Promotion of Oil Palm Cultivation**: India has been actively promoting oil palm cultivation to reduce its dependence on imported edible oils. Significant plantations have been established in states like Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, Odisha, and Kerala, where the climate conditions are suitable for palm oil production.



- **Research and Development**: The Indian Institute of Oil Palm Research, located near Pedavegi in Andhra Pradesh, is dedicated to improving oil palm cultivation techniques and increasing yield efficiency across the country.
- **National Mission on Edible Oils – Oil Palm (NMEO-OP)**: Under this initiative, efforts are underway to expand oil palm cultivation, with the goal of achieving self-reliance in edible oil production. The government is focusing on increasing domestic production to meet growing demand.

- **Environmental and Sustainability Issues**: The expansion of oil palm plantations in India and other countries has raised concerns about deforestation and biodiversity loss. There are ongoing global discussions on how to balance palm oil production with environmental sustainability and the protection of natural habitats.

Challenges in Palm Oil Cultivation

- **Aging Plantations and Replanting Rates**: Oil palms have a productive life span of around 20 years, and they need to be replanted after 25 years. However, many farmers are reluctant to replant because of the short-term loss of income during the replanting period, which can result in land being left unproductive for 3-4 years. This is reducing overall production capacity in many regions.
- **Environmental Restrictions**: Deforestation concerns, particularly in Indonesia, have led to restrictions on the expansion of new palm oil plantations. The clearing of land for new plantations has been a major environmental issue, as it often leads to the destruction of tropical rainforests and harm to biodiversity.
- **Labor Constraints**: Labor shortages, particularly in Southeast Asia, are contributing to the reduction in palm oil yields. Additionally, the spread of the Ganoderma fungus, which affects oil palm trees, is further reducing yields and complicating cultivation efforts.
- **Limited Expansion in Other Countries**: While countries like Colombia, Ecuador, Ivory Coast, and Nigeria have increased their palm oil production, their growth has not been sufficient to meet the rising global demand. The limited expansion in these regions is contributing to the global supply shortage of palm oil.

Source: https://www.thehindu.com/business/the-end-of-cheap-palm-oil-output-stalls-as-biodiesel-demand-surges/article69312882.ece