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### 1. Background and key issues

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### 2. Latest developments

Developments in the international oil crop sector, 2012/13

Developments in the European oil crop sector in 2012/13

Investment trends in oil crop production in ACP countries

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### 3. Implications for the ACP

The importance of dealing with the issue of trade preference erosion

A game-changer for biodiesel feedstock producers

Demands for sustainability

Responding to changing retailer standards and requirements from manufacturers

The need to stay on top on EU regulatory developments regarding biofuel

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## Oil crops sector

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### 1. Background and key issues

Traditionally oil crops have been grown either primarily for human consumption (e.g. palm oil) or for animal feed (e.g. rape seed and sunflowers), although some, such as soybeans, straddle these two categories. More recently, however, oil crop use in biofuels has grown in importance, blurring this divide. Developments in EU and US biofuel policies in the coming years could thus potentially impact on the use of oil crops as a biofuel feedstock.

ACP countries, although they are producers of four of the world's seven major oil crops, now play a marginal role in world trade in oil crops. Even in the traditional European market, increased competition is faced from low-cost palm oil producers in south-east Asia. However, new investments in West and Central Africa, which were formerly leading suppliers of palm oil, could lead to this picture changing.

Growing concerns over the sustainability of palm oil production in particular, if addressed through new patterns of investment, could provide a major boost to West and Central African palm oil exports. Sustainability certification is already central to palm oil production in Papua New Guinea (PNG). The basis of sustainability certification, however, is now the subject of intensifying discussion, with a trend towards 'chain of custody' rather than 'mass balance' certification systems. This trend potentially carries important implications for ACP exporters by raising the costs of sustainability certification.

The EU is a net importer of vegetable oils, producing only around 25% of its total consumption. ACP suppliers retain a 12.8% tariff preference over MFN suppliers. Since the 2003 round of CAP reforms, oil crops have been incorporated into the CAP single farm payment regime, which provides non-

Table 1: World production and consumption of the major vegetable oils (millions of tonnes)

	2010/11	2011/12	2012/13
<b>Production</b>	<b>147.64</b>	<b>155.67</b>	<b>157.76</b>
Palm oil	47.92	50.70	53.83
Soybean oil	41.29	42.40	43.18
Sunflower oil	12.29	15.08	13.75
Rapeseed oil	23.51	24.29	23.80
Consumption	144.46	150.16	155.95
<b>Palm oil</b>	<b>46.77</b>	<b>49.06</b>	<b>52.38</b>
Soybean oil	40.76	41.76	43.35
Sunflower oil	11.55	12.94	13.42
Rapeseed oil	23.49	23.78	23.80

Source: USDA, Oilseeds: World market and trade (March 2013)

crop-specific payments. Oil crops do not benefit from intervention buying, export refunds or any other form of product-specific support.

The key pending EU policy developments in the oil crops sector relate to the October 2012 EC proposals to amend the sustainability criteria under the Renewable Energy Directive (RED). These proposals commit the EU to meeting 10% of transport energy needs from renewable fuels by 2020. The proposals need to be seen in the context of a projected 50% increase in the share of vegetable oil consumption going into biofuel production in the EU by 2020, and a growing demand for the use of oil crops in animal feed production in response to the expanding global demand for meat. These developments form part of a wider trend towards reviewing biofuel policy targets, in the light of concerns expressed during 2012 over the impact of biofuel policies on food prices, and they provide some background to the renewed investor interest in oil crop production across Africa.

Three policy issues were identified in the 2012 *Agritrade* Executive Brief on the oil crops sector (see *Agritrade* Executive Brief 'Oil crops sector', 28 November 2012:

- the issue of erosion of the value of ACP tariff preferences in the oil crops sector;
- the rise of demand for sustainably certified palm oil production;
- the scope for regional trade in oil crops across the ACP.

## 2. Latest developments

### Developments in the international oil crop sector, 2012/13

#### Trends in demand, production, trade and prices, 2012/13

In a reverse of the 2011/12 situation, the world oil crop market is expected to

slacken in 2012/13. Increased production will slightly exceed consumption, largely due to a single crop, soybeans, and a single region, Latin America. However, production of soybean oil and rapeseed oil is expected to finish slightly below consumption, while palm oil continues its upward curve in terms of both supply and demand.

*“The world oil crop market is expected to slacken in 2012/13”*

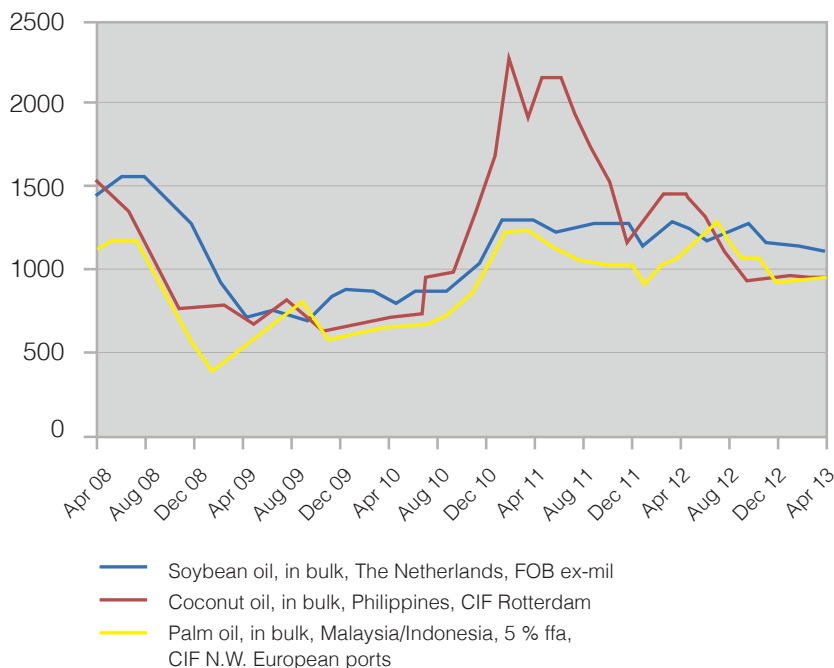
#### Production

After a dip in 2011/12, world oilseed production (soybean, cottonseed, groundnut, sunflower, rapeseed, palm kernel and copra) has resumed its upward trend (+6%) and is forecast to reach 466.8 million tonnes.

Accounting for over half of total oilseed production, soybeans set the overall trend for the sector. The 2012/13 market year opened with stocks at a very low level, and with disappointing early harvests, particularly in the ISA, the leading world producer, where production was affected by severe drought. However, the increases expected from Brazil (currently ranked second in the world and likely soon to edge ahead of the USA) and Argentina will more than compensate for this fall in US output.

Among other oilseeds, only sunflower seeds have registered a fall in production, dropping by 10% after a record year in 2011/12, with the major producers (Ukraine, Russia and Argentina) all reporting a decrease. Production of other oil crops either remains steady (rapeseed and coconut) or is increasing (palm kernel +6.3% and groundnut +5.2%).

Figure I: Price of selected vegetable oils, 2008–2013 (US cents/lb)



Source: UNCTADstat

## Consumption

*“Oil crop consumption has been hardly affected by the global economic crisis”*

World population growth has effectively shielded oil crop consumption from the effects of the global economic crisis. Oilseed consumption grew by 5.2% in 2011/12 to 443.61 million tonnes, with a near 4% increase forecast for 2012/13. Global demand remains strong for the major vegetable oils (palm, soybean, sunflower, rapeseed, groundnut, coconut, palm kernel and cottonseed), up by 3.9% over the previous year. Overall, supply and demand across the eight major oils in 2012/13 is in equilibrium. China is building its position as leading consumer, with 30.8 million tonnes in 2012/13 (+5%), ahead of the EU27, India, the United States and Indonesia.

Palm oil consumption is forecast to grow by 6.7% in 2012/13. Accounting

for 34% of total world oil consumption, it remains the market leader.

## Trade

Oil crops and vegetable oils rank among the world’s most widely traded commodities, with over 40% of global production sold on international markets.

Among oil crops, soybeans are by far the most extensively traded, eight times the volume of second-placed rapeseed. Brazil, the US and Argentina together account for 85.6% of soybean exports. China, with over 50% of the market, remains the leading importer, followed at some distance by the EU. The FAO forecasts that exports will reach almost 99 million tonnes in 2012/13, up by 5% over the previous year.

Among vegetable oils, palm oil is the most widely traded, with exports reaching 41.9 million tonnes in 2012/13, far ahead of second-placed soybean

oil with only 8.4 million tonnes. The leading importer is India, followed by China and the EU.

*“Competition is scaling up between the principal world players in the sector”*

Countries keep a close watch on trade regulations and policies affecting this core product, and competition is scaling up between the two major producer/exporters, Indonesia and Malaysia, and with the main importer, India.

## Price

Soybean prices displayed marked volatility in 2012, with a total rise of 20% over the year, but they are forecast to fall in 2013. Palm oil prices have been in a downturn since June 2012, falling by 23% over the year, with increasing supply and sluggish demand combining to produce high levels of stock. Prices have been rising since May, but analysts are still not optimistic for 2013 (see Agritrade article ‘Prospects for soybean and soybean oil prices for 2013’, 25 March 2013).

After peaking at an average of US\$2,358.17/tonne in 2011/12 (up from US\$1,792/t in 2010/11), prices have been falling since August 2012 to around US\$1,381/t in March 2013, mainly due to a sharp fall in the Senegal groundnut harvest in 2011/12.

## Sustainability certification and the palm oil sector

Palm oil faces increasing criticism, with campaigns that originally targeted deforestation and loss of biodiversity now progressing to the product’s impact on health, and more recently to the practical relevance of sustainability criteria.

Table 2: Vegetable oil in Europe (millions of tonnes)

	2010/11	2011/12	2012/13
<b>Production</b>			
Rapeseed, soybean, sunflower	14.2	14.1	13.6
Consumption			
Rapeseed, soybean, sunflower	15.6	15.1	15.1
Palm	4.9	5.0	5.4
Imports			
<b>Rapeseed, soybean, sunflower</b>	<b>2.3</b>	<b>2.0</b>	<b>2.4</b>
Palm	5.1	5.3	5.6
Exports			
Rapeseed, soybean, sunflower	0.8	1.0	0.8
<b>Palm</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

Source: European Commission

In 2004, the World Wide Fund for Nature (WWF) and members of the palm oil supply chain set up the Roundtable for Sustainable Palm Oil (RSPO), which promotes sustainable palm oil and combats deforestation through an eco-label launched in 2007. This label was originally based on 39 criteria, grouped under eight broader principles, and in April 2013 three new criteria were added, demanding a reduction in greenhouse gas emissions from new plantations, anti-corruption measures, and the implementation of a human rights policy.

*“Sustainable palm oil – according to Greenpeace, a greenwash for firms who want a veneer of environmental sustainability”*

Although the RSPO now has almost 1,000 members (growers, retailers, distributors, processors, brokers and NGOs), it continues to draw criticism. NGOs form only 5% of the membership, and the RSPO’s detractors claim its criteria and control mechanisms are inadequate. For Greenpeace, it simply

provides a «greenwashing» mechanism for firms wishing to acquire a veneer of environmental responsibility. Some critics highlight violations of the plantation certification regulations, particularly illegal deforestation, planting in the protected area, and the use of paraquat, a pesticide which damages the nervous system and is banned in Europe (see [Agritrade article ‘RSPO members questioned over sustainability of palm oil production’](#), 28 April 2013).

*“GreenPalm is currently the most commercially viable option and simplest means of supporting sustainable palm oil production”*

To date, the RSPO has certified over 8 million tonnes of palm oil, or 15% of world production, in a number of categories:

- chain of custody (certified sustainable palm oil/CSPO): the palm oil is tracked from planting to end user and is handled separately from other oil. This model is approved by UTZ Certified and provides complete

traceability across the supply chain: 100% of the oil comes from certified plantations and mills. This highest level of certification is not always commercially viable and only small amounts of sustainable oil are produced in this way.

- mass balance’: the majority of the palm oil is sustainably produced but, with no strict segregation along the supply chain, a variable percentage of non-certified oil may be included. This system, audited by UTZ Certified, promotes the introduction of traceability measures.
- certificates: manufacturers who use palm oil purchase GreenPalm certificates online and make incentive payments via the RSPO to producers of sustainable palm oil. GreenPalm is currently the most commercially viable option and also provides the simplest means of supporting sustainable palm oil production. GreenPalm has delivered 6.5 million palm oil certificates since 2008 (one certificate represents one tonne of RSPO palm oil) and around one million palm kernel oil certificates, realising payments of more than US\$40 million for RSPO-certified producers.

## Developments in the European oil crop sector in 2012/13

### Trends in production, consumption and trade

A prominent feature of Europe’s oil crop market is a considerable shortfall in soybeans, a crop seldom grown in the region. The EU27 therefore depends on oil crop imports in the form of seeds, meal and oil. Around 70% of soybean meal and over 40% of sunflower meal is imported. Only rapeseed is widely produced and consumed locally.



## Production

The USDA forecasts oil crop production in the EU27 to remain steady at around 29 million tonnes, with the planted area across the EU falling by 1.8% to 11.4 million hectares.

## Consumption

A slight fall (-0.3%) in total oilcake consumption is forecast for 2012/13. Increased use of sunflower seeds and rapeseeds in cake form as animal feed will be at the expense of soybeans. A 0.7% increase in vegetable oil consumption is forecast in response to growing demand from the food processing sector. The USDA forecasts that biodiesel production, the principal market for rapeseed oil, will remain steady in 2012/13. It also predicts an increased use of sunflower oil, palm oil, animal fats and recycled oils as biofuel feedstock, and a consequent fall in the use of soybean oil.

## Trade

The EU exports just a small amount of vegetable oil (1 million tonnes in 2012/13), while importing over a third of its total requirements. Palm oil predominates, representing some 70% of vegetable oil imports. The EU imported 5.6 million tonnes of palm oil in 2012, up by 14% over 2011, mainly from Indonesia (43% in 2012) and Malaysia (34%). Papua New Guinea has maintained its market share with 10%.

## Biofuels developments

### The biofuels debate and its implications for the European Renewable Energy Directive

On 17 October 2012, the European Commission signalled a clear change of direction in its biofuels policy, targeting in particular its negative impact

on food prices. Five proposals were tabled, including one to cap the proportion of so-called first generation biofuels derived from food crops such as wheat, maize, beetroot and rapeseed, while encouraging the development of second and third generation alternatives produced respectively from waste and vegetable residues, and microalgae and yeasts. According to the FAO's 2012 Report on the World Food Situation, 80% of all vegetable oil produced in the EU was used as biofuel feedstock, while only 37% of the US cereal harvest went to produce ethanol. First generation biofuels currently account for 4.5% of the transport sector's energy needs. The EC proposes that this share should rise to no more than 5% by 2020, leaving unchanged its overall objective (fixed in 2009) that renewables account for 10% of the transport sector's energy needs by 2020. This proposal would have implications for oil crops by freezing their use as a biofuel feedstock at current levels and "would not necessarily pose any technical challenge".

Similarly, a study published by the French Environment and Energy Management Agency (Ademe) in April 2010 claims that some supposedly "green" fuels have a worse environmental record than their fossil equivalents when indirect land-use change (ILUC) is factored into the equation; as, for example, when biofuel plantations entail the destruction of forests, pasture and peatlands in the Amazon Basin and Indonesia, and hence a loss of CO<sub>2</sub>-capturing ecosystems. Soybean biofuel, offering a reduction of 77% in greenhouse gas emissions if indirect land-use change is ignored, produces four or five times the emissions of petrol when each hectare of tropical forest transferred to biofuel culture is taken into account. Consequently, one of the EC's proposals would introduce a number of supplementary sustainability

requirements for certain categories of biofuel and make biofuels responsible for a share of greenhouse gas emissions relative to their estimated ILUC-linked impact. This proposal, described as the "most effective way of reducing ILUC-related emissions", would also have the greatest impact on the oil crop sector. However, it looks likely to pose considerable practical difficulties for individual countries and projects, and if "implemented in isolation would require major adjustments from the sector". The proposal would prohibit all current biodiesels and require the rapid development of alternatives, considered impractical before 2020.

An EC impact evaluation published in October 2012 suggests that these proposals would offer "the best means of minimising ILUC-related emissions", by providing very strong incentives to increase production of second and third generation biofuels.

On 17 April 2013, MEPs presented a proposal to modify the wording of the European Renewable Energy Directive, replacing the term biofuels with the phrase "truly sustainable advanced biofuels", i.e. second and third generation, as the means of achieving the target of meeting 10% of the transport sector's energy needs through renewables by 2020. The proposal stresses the need to limit use of the heaviest polluters by factoring direct and indirect land-use change into the equation. A standstill clause would protect existing investments and employment in the sector until 2017, exempting some biofuels from ILUC legislation as long as their market share remains at or below 2010 levels of production. Member states remain divided on this issue. At a meeting on 11 July 2013, the Environment Committee supported measures designed to limit the use of first generation biofuels and voted in favour of next generation alternatives.

The European Parliament will vote on this legislative report in plenary session in September.

ACP palm oil producers are advised to track this debate as it develops and stay on top of the potential market implications of any policy change.

## Biofuel-related trade tensions

After anti-dumping duties were imposed on biodiesel imports of US origin in 2008, European biofuel producers filed an action against Argentina and Indonesia, accusing them of unfair competition in selling biodiesel on the European market. The EC opened anti-dumping proceedings in August 2012 and subsequently began an anti-subsidy enquiry into imports from these two countries.

“The price of biodiesel imported into Europe from Indonesia and Argentina is less than that fetched by soybeans, the basic raw material,” claimed Raffaello Garofalo, secretary-general of the European Biodiesel Board (EBB).

According to Eurostat and EBB estimates, imports from these two countries have grown from a very low base in 2008 to reach 2.5 million tonnes in 2011, or more than 90% of all EU biofuel imports. Some European producers have been driven into bankruptcy and others forced to sell below cost price or reduce their output.

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*“Trade tensions are expected to encourage some of the big palm oil producers to target domestic consumption”*

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These trade tensions are expected to encourage some of the big palm oil producers to target domestic consumption. The Indonesian government has already implemented a policy aimed towards an energy mix

including 2% biofuels by 2010, 3% by 2015 and 5% by 2025. Malaysia is also promoting a palm-oil-based biodiesel for domestic consumption. After the January 2013 launch of B5, a biodiesel incorporating a minimum 5% palm oil, the government now plans to move to 10% (B10) by mid 2014.

## Possible effects of CAP reform on the oil crops sector

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*“The oilseeds sector is little affected by the current CAP reform process”*

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Since the EU “no longer has any specific support measures for oilseeds”, the oilseeds sector is little affected by the current CAP reform process. The changes to the Renewable Energy Directive that are linked to the development and application of sustainability criteria are the principal EU policy influence on oil crop markets.

## ACP exporters face preference erosion

On 31 October 2012, the EU published its revised Generalised Scheme of Preferences (GSP), due to take effect from 1 January 2014. The revised scheme will concentrate on a smaller number of recipients, 89 in all, offering greater support to countries which respect human rights, labour rights and agreements concerning the environment and good governance.

The revised scheme will see Malaysia lose its preferential access to the European market from 2014 onwards, and its palm oil exports will attract duties ranging from 3.8% to 6.5% (according to degree of refining). However, like Indonesia, Malaysia has been negotiating with the EU since 2010 to conclude a free-trade agreement (FTA) that would maintain the duty-free status of its palm oil exports

to the EU. If agreement is reached before January 2014, Malaysia will be allowed to benefit from the GSP until the end of 2015.

Papua New Guinea has secured temporary duty-free access to the European market by signing an interim EPA (IEPA), but the potential future erosion of its palm oil preferences remains at issue (see *Agritrade* article ‘[Sustainable palm oil still ahead of canned tuna in Papua New Guinea trade with EU](#)’, 31 March 2012). A decision whether to pursue an EPA on a regional Pacific ACP level or to expand the existing interim EPAs is still on the agenda. Meanwhile, the EU has confirmed that any preference erosion will be implemented progressively to give the country’s industries time to adapt.

## EU policy initiatives to incorporate sustainability into trade agreements

While the trade impact of sustainability concerns in the oil crops sector are primarily being felt through private-sector-based sustainability schemes, in the longer term this may become a formal regulatory issue. In the fisheries sector, the EU is formulating regulatory reforms that will link access to the EU market for fisheries products to certified compliance with sustainable fishing practices. These regulatory developments warrant close scrutiny, in view of their potential wider application to the agricultural sector (e.g. moves towards sustainability certification of palm oil as a prerequisite for market access).

## The growth of protectionism

Criticism of palm oil has increased considerably, with ever more products labelled “palm oil-free”, sometimes as a deliberate selling point. Trading on palm oil’s supposed harmfulness

Table 3: Major ACP oil crop producers by country and crop (tonnes)

	Palm oil	Groundnut oil	Groundnuts, unshelled	Coconut oil	Sesame seeds*
<b>West Africa and Central Africa</b>					
Burkina Faso					84,759
Cameroon	254,000	41,400	537,000		
Congo					
Côte d'Ivoire	400,000			32,488	
Ghana	120,000	62,467	465,103		
Guinea		66,717	290,000		
Mali		29,300	316,000		27,000
Niger		41,200	395,000		88,517
Nigeria	1,350,000	660,000	2,963,000		229,167
Central African Republic					51,000
DR Congo	187,000	22,860	467,223		
Senegal		31,124	390,000		37,000
Chad					
<b>East Africa and Southern Africa</b>					
Ethiopia					327,741
Malawi			305,000		
Mozambique				35,827	26,000
Uganda		38,672			173,000
Tanzania			651,397	16,796	110,000
<b>Caribbean</b>					
Jamaica			2,643	10,560	
Dominican Republic	44,000	1,137	4,252	7,300	
<b>Pacific</b>					
Papua New Guinea	520,000			54,700	
Vanuatu				16,892	
<b>World</b>	<b>48,550,751</b>	<b>5,341,886</b>	<b>38,614,053</b>	<b>4,319,895</b>	<b>4,092,236</b>

Although Sudan and South Sudan rank among Africa's major producers of sesame seeds, data is unavailable for these two countries. Source: FAO

to health, the French retail group Système U launched an advertising campaign early in 2012 extolling the merits of its palm oil-free products, and in the same year a French senator launched

the notorious "Nutella amendment", demanding the imposition of an additional duty of €300/t on palm oil imports for food use, ostensibly on public health grounds. In 2011,

72 products labelled "palm oil-free" entered the European market, compared to 10 in 2010, and by July 2012 another 66 new products had been added (see *Agritrade* article '[Sustain-](#)

able palm oil set for expansion if challenges can be overcome', 9 December 2012).

## Investment trends in oil crop production in ACP countries

ACP countries occupy only a marginal place among world producers and exporters of the seven major oil crops. Overall, they are dependent upon imports to meet their needs in products derived from oil crops. Africa produces only 5.5% of the world's palm oil, or approximately 2 million tonnes a year, almost 55% of it from Nigeria. The continent currently imports 4.5 million tonnes annually to meet its needs.

### West Africa and Central Africa

Palm oil projects are ongoing in a number of countries (Gabon, Liberia, Sierra Leone, Ghana, Nigeria, etc.). However, some have provoked vigorous opposition, among them Golden Agri-Resources in Liberia, Herakles in Cameroon and Bolloré in Sierra Leone.

Ranking second among Africa's producers and first among its exporters, Côte d'Ivoire aims to double its output by 2020 via its third palm oil programme. Cargill is planning to invest US\$300 million to develop a 50,000-hectare plantation, while Dekel Oil, a subsidiary of the Israeli Rina Group, also has ambitions in this sector for Côte d'Ivoire.

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*"Over a 10-year period, Côte d'Ivoire has tripled its vegetable oil exports to ECOWAS countries"*

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Over a 10-year period, Côte d'Ivoire has tripled its vegetable oil exports to ECOWAS countries to reach US\$151 million in 2012. It has also increased its exports to the EU over this period:

from a base 10 times lower, they grew by a factor of 19 to reach US\$76.5 million in 2012. However the trend has been less linear and, compared with exports to ECOWAS countries, growth has been irregular. Overall, the West African market accounts for 56 to 89% of Côte d'Ivoire's exports, the bulk of the remainder going to Europe.

While intra-regional palm oil trade is increasing, it continues to be disrupted by rules of origin issues (see *Agritrade* Executive Brief Update West Africa, forthcoming 2013). For example, rules of origin are impossible to apply to oleine, produced by the secondary processing of raw palm oil imported from Asia. Indeed, the whole regulatory system (common external tariff and rules of origin) seems incompatible with the palm oil supply chain, as the region is deficient in oil crops and is forced to rely completely on imports from Asia.

Côte d'Ivoire is a staunch defender and promoter of African palm oil. In 2012, it brought an action at the Paris Tribunal de Commerce against the French retail chain Système U (see *Agritrade* article '[The fast-growing palm oil sector defends itself against an attack by large-scale distributors](#)', 9 September 2012) and obtained a judgment in favour of its palm oil producers. The tribunal decided that Système U's advertising campaign constituted "a blatant smear detrimental to the reputation of palm oil". Nigeria also supported this move via the Initiative for Public Policy Analysis (IPPA), writing to several distributors (Casino, Système U, Jaquet and Lays). A victory in the opening round.

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*"African producers have been keen to highlight the lobbying and false accusations surrounding palm oil"*

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The first African Palm Oil Congress (APOC), held in Abidjan in June 2013, was keen to highlight the lobbying and false accusations surrounding palm oil, and to establish a platform for its future promotion. At the close of the congress, an "Abidjan Declaration" was adopted in defence of oil palm cultivation. Moreover, the World Bank and the Sustainable Forestry Initiative (SFI) have entered into new commitments to finance this sector.

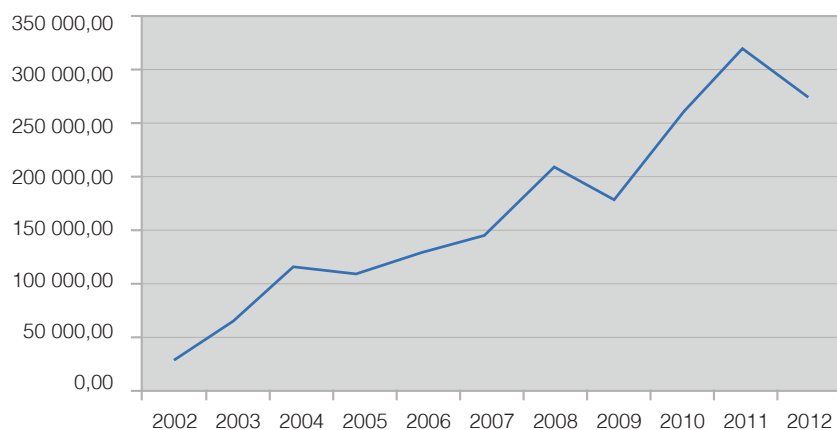
In Nigeria, processors are battling a 35% import duty on raw palm oil, arguing its potential damage to several agrifood industries. These palm oil duties could also hit the consumer through a rise in retail prices. The processors highlight with regret the gap between Nigeria's annual production of raw palm oil (700–800,000 tonnes) and its consumption of 1.9 to 2.1 million tonnes, leaving imports to fill the void.

In Central Africa, the Singaporean Olam Group is developing a plantation and a processing plant in Gabon. It is also holding talks "with investors active in Liberia, Cameroon, Congo, Zambia, DR Congo and several other countries where palm oil is essential to nutrition", states Ranveer Chauhan, Olam's Managing Director, Africa. The Chinese are also advancing their pawns. ZTE Agribusiness, a subsidiary of telephone operator ZTE, is negotiating with the government of DR Congo to develop a one-million-hectare oil palm plantation with an annual production target of 500,000 tonnes, 90% of it designated as biofuel feedstock.

In Senegal, groundnut oil is facing a difficult future. Although a major world exporter, the country is now confronted by the uncertainties of a groundnut trade liberalised in 2010. In 2012, despite what was considered



Figure II: Value of imports of fixed vegetable fats and oils (crude, refined, fract.) to the Caribbean, 2002-2012 ('000 US\$)



Source: UNCTADstat

an exceptional harvest (over 700,000 tonnes), the three main processors were short of oilseeds, producers preferring to sell at a higher price (270 FCFA/kg versus 190 FCFA/kg) to foreign buyers, so much so that the issue of a new groundnut export ban has re-emerged.

### Sectoral developments in East Africa and Southern Africa

Soybean production in South Africa has enjoyed continuous growth since 2006, passing from 206,000 tonnes to 850,000 tonnes in 2012. Sunflower production also rose in 2012 to 625,000 tonnes, but is still below the 860,000 tonnes harvested in 2010.

*“Industrialists in East Africa are on the lookout for opportunities”*

Oil palm investments in East Africa are more recent in date, with industrialists in the sector on the lookout for opportunities. For example, Singapore’s Olam has extended its activities through its October 2012 acquisition of 50% of Acacia Investments (AI). Olam can build upon the work

of AI, already a strong brand in the local East African edible oil refining industry, and is positioning itself as a supplier of raw palm oil to the new co-enterprise. Malaysia is showing interest in investing in Uganda and is already heavily involved in a large-scale project on the island of Bugala, the Kalangala Vegetable Oil Development Project (VODP). In Rwanda, the Tanzanian company Mount Meru Soyco is working in partnership with the Clinton Foundation on an oil-processing project, aiming to develop local soybean production and sign up “30,000 local farmers to grow the crop” (see Agritrade article ‘Regional investment in oil crop processing in Rwanda’, 1 October 2012).

### Developments in the Pacific islands

Poor weather in the form of heavy rain affected palm oil production in PNG in 2012 and the first quarter of 2013. Results from New Britain Palm Oil Limited (NBPOL), PNG’s main palm oil producer, were also hit by the revaluation of the kila against the dollar, which automatically increased production costs and reduced competitiveness.

Nevertheless palm oil production grew overall by 3.9% in 2012 to 530,000 tonnes. Production of coconut oil has remained steady at 63,000 tonnes since 2008.

With its market share stable at around 10%, PNG is maintaining its palm oil exports to the EU, its major outlet. Exports by volume reached 565,503 tonnes in 2012 (+4.5% over 2011 and +11.5% over 2010).

### Developments in the Caribbean

The Caribbean produces only a small amount of vegetable oil, with oil crop production limited mainly to coconuts, at around 24,000 tonnes per year. The Dominican Republic is the region’s only palm oil producer, with 44,000 tonnes in 2011. Caribbean countries are thus highly dependent on imports, and the rising price of a number of oil crops has greatly increased food bills, particularly in Haiti, the Dominican Republic and Trinidad and Tobago, which together account for 85% of the fixed fats and vegetable oils (crude, refined, fract.) imported into the Caribbean (52%, 22% and 11% respectively).

## 3. Implications for the ACP

### The importance of dealing with the issue of trade preference erosion

The revision of the GSP and its recipient countries, plus the various FTA negotiations conducted by the EU with Malaysia and Indonesia among others, are game-changers for ACP oil crop exporters, particularly PNG’s palm oil exporters.

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*“ACP countries are facing the erosion of their preferential access in favour of countries signed up to FTAs with the EU”*

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Whatever the outcome of the EPA negotiations, ACP countries will face the erosion of their preferential access in favour of countries signed up to FTAs with the EU. ACP countries interested in exporting into the EU market should make preparations for these changes and consider other outlets for their production, either local or export. They should also think about signing an EPA, which would simply put them on the same footing as emerging, and highly competitive, nations like Malaysia and Indonesia, if these two countries conclude an FTA with the EU.

### A game-changer for biodiesel feedstock producers

Although trade preference erosion may be detrimental to ACP exporters, another trend might favour them. The trade tensions evident between Indonesia, Argentina and the EU, which are already driving Indonesia to concentrate on the domestic rather than the export market, plus Malaysia's support for domestic biodiesel, could provide an additional export margin for ACP oil crop producers.

### Demands for sustainability

At 8.2 million tonnes, RSPO-certified oil represented 15% of the total palm oil market in 2012, up from 12% the previous year, with further growth forecast.

As home to New Britain Palm Oil Ltd (NBPOL), the leading producer of RSPO-certified palm oil, PNG is well placed in this niche market. NBPOL is also active in the Solomon Islands.

However, Africa's only current certified producer is Agrivar in Côte d'Ivoire. Any new African oil palm plantation project would be well advised to ensure it meets sustainability criteria: to avoid criticism, position itself in this sector, and respond to the demands of the European market. However, potential changes to the certification regime could undermine investments made to guarantee sustainable production, palm oil certification itself, and the strategy of enterprises opting for this model. Tougher regulatory requirements, particularly for labelling, seem necessary if the new ACP producers are to take full advantage of investment in sustainable palm oil production.

In terms of the ACP's trading relationship with the EU, two important issues are emerging: the potential use of customs duties to favour RSPO-certified palm oil, and the development of quality standards which encourage its use in foodstuffs.

### Responding to changing retailer standards and requirements from manufacturers

There is a need for ACP producers to effectively engage with debates in Europe and beyond on the environmental and health impacts of palm oil production, in order to ensure that ACP interests and realities are taken on board in the development of retailer standards.

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*“Are retailer standards new barriers to trade?”*

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This would suggest a need for the launching of a broader dialogue with the EU on how to ensure that retailer standards do not become new barriers to trade or result in ACP producers carrying a disproportionate burden of

the costs of meeting the new retailer standards. This issue can be seen to fall within the EU's Agricultural Product Quality policy. It could, for example, give rise to a code of conduct for accommodating development concerns within retailer standards.

### The need to stay on top on EU regulatory developments regarding biofuel

There would appear to be a need for ACP oil crop exporters to closely monitor developments in EU biofuel policies, given the knock-on effects that they could have on market prices for oil crops, and the EC's efforts in the fisheries sector to establish the legal basis for linking access to the EU market with sustainable production practices. Once the legal basis is established, the approach could be extended to a range of agricultural sectors. ACP oil crop exporters may wish to make common cause with other potentially affected sectors across the ACP (e.g. cocoa and beef) in monitoring the evolution of EU policy and ensuring that environmental and social standards do not become new barriers to market access.

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#### **About this update**

This brief was updated in October 2013 to reflect developments since October 2012. Other publications in this series and additional resources on ACP–EU agriculture and fisheries trade issues can be found online at <http://agritrade.cta.int/>



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP–EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

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Technical Centre for Agricultural and Rural Cooperation (ACP–EU)  
PO Box 380  
6700 AJ Wageningen  
The Netherlands  
Tel: +31 (0) 317 467 100  
E-mail: [cta@cta.int](mailto:cta@cta.int) - [www.cta.int](http://www.cta.int)