



PF 8409/03/2013(031809) MO(P) 051/11/2023 ISSN 1675-1205

theedgemalaysia.com





COVER STORY 1

A survey of the palm oil sector

The paint off industry, which generates export eartifles of about exercis billion accountly, has been the backfrone of Malaysia's economy for the last sold years. In recent years, it has been overshadowed by developments in other sectors such as electrical and electronics, information exchaology and data centres. It was by challenges, from labour shortage to negative perception by the west, how can Malaysia's paint oil sector stay ahead of the competition and remain relevant?

the posed some questions to a few industry leaders and experts.



CHAIRMAN, MALAYSIAN PALM OIL
COUNCIL (MPOC)

The Edge What are the top three challenges facing the country's palm oil sector?

Datuk Carl Bek-Nielsen: The highest priority by far remains measures that need to be taken to reverse the stagnating yields per hectare from the present national average of 3.2 tonnes of CPO per ha.

Secondly, concerted effort should also be made to lower the industry's rising cost of production by, among others, raising productivity through mechanisation and automation. Thirdly, to address the acute labour shortages which periodically cripple the ability of the growers to do their job, resulting in high field losses that have run into billions of ringgit over the last few years.

How should these challenges be addressed? And does Malaysia have the solutions to address them? If not, why?

There is no fast track or quick-fix solution for reversing the low yields. What is needed is a sustained effort to do what is required, starting with accelerating a nationwide replanting programme so all old and unproductive palms can be replaced with new, high-yielding materials from reputable seed producers that have the genetic potential to yield 70%-100% more compared to now.

Raising the national yield to four to 4.5 tonnes per ha will help to improve the economic viability of the industry by lowering its cost base, which since Covid-19 has rocketed to RM2,500 to RM3,000 per tonnes. High yields are like a silver bullet and companies should dedicate more energy to this.

Thirdly, the industry needs improved policies without the bureaucracy currently encountered when recruiting guest workers. The government should urgently work on facilitating a smooth and trouble-free recruitment process, which is fast, efficient and in line with the principles of the International Labour Organization. As the quote goes, 'Give us the tools (labour) and we will complete the job (minimise losses thereby raising yields)'.

Malaysia has the ability to solve all of the above and I remain optimistic that the first steps are finally being taken to address this.

Are planters and the industry doing enough to prepare for climate change in their daily operations on the ground? Planters will have to be prepared for more entrane weather not just now but also in the

. In the tropics, this will very likely be

this with more extreme swinfall and innerse this niderature with strong winds and the consequential risks of periodic flooding. Much more can be done to improve on water management, including drainage, to help facilitate the evacuation of excessive volumes of water. At the same time, present should also start to improve their agreement practices to mitigate more severe periods of droughs — by enhancing making and the planting of leguminous cover crops that help minimise soil evaporation. We have to adapt to the changing times.

for the past 50 years, do you see the palm oil sector continuing to play a major role in the country's growth? With production stagnating, can the industry innovate to produce high-value consumer goods or will it remain a primary and semi-processed commodity producer?

I am very confident the palm oil industry will continue to play an important role in our country's future economic growth and prosperity. We must not just look at the export value that is well over RM100 billion per year at present but also at what the industry provides to Malaysia in terms of net export surplus, which is higher than most other segments in the Malaysian economy. Malaysia is indeed blessed from an agronomic point of view with good fertile soils, adequate rainfall and sunshine, good governance and first-class infrastructure, which has few equals. These are vital foundation stones to enable the Malaysian palm oil industry to race ahead of our competitors in terms of producing the highest quality and most sustainable palm oil. We must therefore not tolerate or condone any signs of complacency where we resign ourselves to the notion that 'production has stagnated'.

Instead, we should push the notion of producing more with less and I am confident that if the right measures are put in place, Malaysia will within the near future be producing a record 23 million to 24 million tonnes of CPO per year versus the (approximately) 19 million tonnes now. The present Minister of Plantation and Commodities Datuk Seri Johani Abdul Ghani has demonstrated enormous energy, dynamism and leadership to kick-start the transformation, which will push our industry forward, and we are all solidly behind him.

It is just a matter of time before we see some of the larger vertically integrated growers take another step up the value addition ladder, entering the sphere of consumer goods. This can happen in an evolutionary manner, but I do also believe that acquisitions will be on the horizon before too long, thereby leap-frogging into this segment.

The palm oil sector is said to be the crop that is best prepared for the EU Deforestation Regulation (EUDR). Yet there is much opposition from Malaysia and Indonesia on account of smallholders being shut out of the European Union (EU). But Malaysia is over 80% MSPO (Malaysian Sustainable Palm Oil) certified. Please explain this. How will the EUDR change the global palm oil trade! In your opinion what will be the most significant outcome of the EUDR?

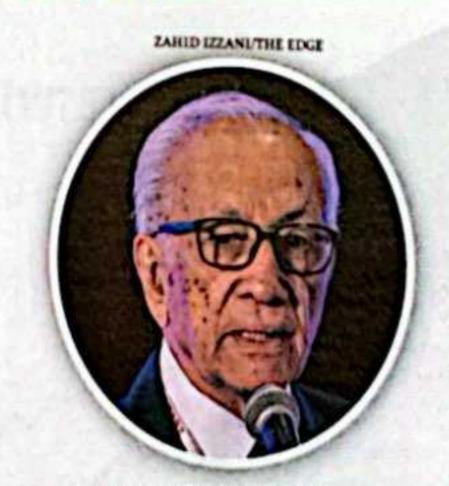
Most larger and medium sized Malaysian oil palm growers are now compliant with the EUDR, thereby supporting the goal of ending deforestation. However, we must not forget the vulnerable smallbacklers who will fixe a gigantic uphill task in implementing the rigorous and resource demanding requirements of the FUDR. Remember, the smallholder community makes up about 27% of Malaysia's palm producers, 45% of Indonesia's palm producers and over \$7% of Thailand's palm producers. The same picture applies to the estimated 25 million coffee farmers around the world where 80% are smallholder producers working on plots of land less than sha and where the majority of production labour is provided by women.

What will happen is that when the big producers or buyers are unable to do the full traceability required by the EUDR right down to the small farmers, they will simply cut them off. This is the reality. The EUDR under the EU's Green Deal therefore risks pushing millions of smallholders further back into darkness — instead of forward and into the light. This is wrong and it is unjust.

I believe that the policymakers in Brussels will only wake up and pull the handbrakes when they run out of caffe lattes in the corridors of the European Commission (EC) — and this will happen if the EUDR is enforced.

In terms of palm oil trade, we must be prepared for short-term disruptions but these are temporary and will eventually even out when the policymakers come to their senses and realise they have led people down a rabbit hole with the EUDR. It will suddenly dawn on the bureaucrats that replacing palm oil with other crops will require seven to 10 times more land, thereby ending up doing more harm to the environment, climate change and biodiversity.

Datuk Carl Bek-Nielsen is also vicechairman and chief executive director of United Plantations Bhd. His response was given prior to the EC's proposal announced last Wednesday to delay the EUDR by one year.



MR CHANDRAN, ADVISER, ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO)

In your view, what are the top three challenges facing the country's palm oil sector?

Complacency

Complacency and a 'business as usual' mindset are the most significant challenges facing the Malaysian palm oil industry. While the lindigative has altimore commarkable mailieness and encounts its overcoming many obergation (see complex or language) throaters its language term anathralistic Examples of complex oracles in the physical pates of industry include:

- tradicates continues to beauty depend on tradictional cultivation and processing methods, often neglecting innovation and middling to adopt to changing marks and environmental conditions.
- Medictance to change and slow adoption of technology: There is notable resistance to new technologies, which hampers efficiency and environmental impact reduction.
- Short term fixus: The emphasis on manimising short-term profits often leads to insufficient investment in long-term sustainability goals.

A clear example of complacency is the palm oil milling process, which has seen little significant transformation over the past six decades. This has implications for the oil extraction rate (OER), which has seen a declining trend. Although incremental improvements such as enhanced machinery efficiency and automation have been made, they do not fundamentally change milling operations. For instance, while the conversion of by-products such as empty fruit bunches (EFB) and palm oil mill effluent (POME) into biomass energy is a step forward, it primarily addresses energy use rather than the core milling process itself.

Environmental pressures - including waste management improvements, methane capture from POME and adherence to certification standards like MSPO, RSPO, ISCC and so on - have largely been reactions to mandatory regulations or external market demands. rather than industry-driven innovations. Despite interest in digital tools like the Internet of Things (IoT), artificial intelligence (AI) and machine learning, their widespread adoption remains lacking. Compared to other industries. such as soy or sugarcane, which have embraced mechanised and data-driven processing, the palm oil industry lags behind, reflecting its over-reliance on existing practices, resistance to change and short-term focus.

Food safety

Food safety is a critical challenge for the Malaysian palm oil industry, particularly as consumer expectations and regulatory standards evolve. Ensuring high food safety standards is essential for the industry's long-term sustainability and competitiveness, especially since 70% to 80% of palm oil is consumed as food. The industry cannot afford to compromise its reputation as a safe oil, particularly as technologies for detecting contaminants improve.

A significant concern is 3-MCPD, a contaminant prevalent in refined palm oil. Although technologies exist to reduce 3-MCPD levels, implementing these measures has proved challenging. The Malaysian Palm Oil Board (MPOB) has made efforts to address this issue, but the introduction of licensing requirements for 3-MCPD control has faced delays. The industry's reluctance to adopt stricter regulations stems from increased production costs, concerns about competitiveness and a lack of consumer awareness about 3-MCPD, leading to the perception that it is not a priority.

Recent proposals to implement different safety limits for domestic and export markets pose significant challenges. Allowing higher maximum limits for 3-MCPD in exports sends conflicting signals about Malaysia's commitment to global food safety. While industry concerns are valid, permitting less stringent standards for exports undermines consumer health and risks

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turnishing its global reputation.

Investments in technology and compliance can now mitigate future costs, including potential market access losses and
reputational damage. It is essential that
business to business transactions uphold
food safety standards, as maintaining high
standards across all products is vital for
sustaining trust in the palm oil sector. The
industry's stance that allowable contamination levels should be market-driven is
unacceptable as such a mindset could stagnate the industry and allow competitors to
seine market share with superior solutions.

Stagnating yields

Stagnating yields present a critical challenge to the Malaysian palm oil industry, impacting land use efficiency, sustainability and long-term competitiveness. The national average yield has stagnated at less than 3.5 tonnes of oil per hectare annually, a low figure shared with Indonesia, among the top five producers (Khor Reports, July 27, 2024). In contrast, Thailand achieves higher crude palm oil (CPO) yields despite a smallholder-dominated sector. Factors contributing to this decline include poor agricultural management practices, labour shortages, suboptimal planting material and inefficiencies in milling operations.

Does Malaysia have the solutions and capabilities to address these challenges? If not, why?

Addressing the challenges facing the Malaysian palm oil industry necessitates a fundamental change in mindset. A shift from prioritising short-term profits to focusing on long-term viability and sustainability is essential Embracing a culture of continuous improvement and actively adopting available technologies can enhance productivity and environmental responsibility. While Malaysia possesses the solutions to tackle these issues, implementation remains a sigmificant hurdle due to industry reluctance.

Complacency

Overcoming complacency requires a proactive approach to embrace innovation and adapt to evolving market demands. Stakeholders must prioritise sustainable practices and recognise the importance of long-term investments in quality and environmental stewardship over immediate financial gains.

Food safety

Malaysia's reputation in the global market.

MPOB and the relevant authorities must implement and enforce stringent regulations to address process contaminants like 3-MCPD. Establishing comprehensive safety standards aligned with international expectations is essential to safeguard consumer health and the integrity of Malaysian palm oil.

Stagnating yields

Stagnating yields are compounded by labour shortages and challenges in planting material quality assurance. To enhance productivity, the industry must address labour issues through policy reforms, including increased wages and investments in mechanisation to attract skilled workers. Improving labour conditions and creating a favourable working environment are vital to enhancing productivity.

In conclusion, the industry's reluctance to adopt technologies highlights the need for proactive intervention through policy and regulatory mandates. Strengthening regulatory frameworks is vital. MPOB and other authorities should recognise the palm oil industry as a principle of Malaysia's correction of malaysia's correction through policy and regulatory in employed the industry's contributions and provide necessary incen-

tives and subsidies to sustain its growth. By addressing these interconnected challenges — complacency, food safety and stagnating yields — Malaysia can enhance the resilience and sustainability of its palm oil industry, ensuring competitiveness in the global market.

Having been the backbone of the Malaysian economy for the past 50 years, do you see the palm oil sector continuing to play a major role in the country's growth? With production stagnating, can the industry innovate?

The palm oil sector has been a cornerstone of the Malaysian economy for over five decades, and its continued relevance will depend on the industry's ability to innovate and adapt to changing global dynamics. While production has stagnated, there is substantial potential for growth through technological advancements, improved practices and strategic investments.

The palm oil industry can draw valuable lessons from the rubber and cocoa sectors, once major commodities whose diminished importance offers crucial insights for the palm oil industry. The volatility of the commodity market was a major issue. Both cocoa and rubber faced agricultural challenges, including pest and disease issues that negatively impacted yields and farmers' incomes. A lack of sustainable solutions contributed to their decline. As palm oil became increasingly lucrative, investments shifted away from these crops, leading to their decline. To avoid a similar fate, the palm oil industry must embrace sustainable practices, placing a strong emphasis on environmental stewardship.

By adopting sustainable agricultural techniques, the industry can maintain soil health, protect biodiversity and comply with evolving environmental regulations, ensuring its long-term viability. Moreover, staying attuned to global market trends and consumer preferences is essential. The industry must be agile, adapting production strategies to meet changing demands and capitalise on opportunities for high-value consumer goods.

Malaysia's economy compared to other sectors cannot be overstated. For example, although the electronics sector contributes significantly to gross doemstic product through exports, it relies heavily on imported raw materials and technology, resulting in high research and operational costs. This diminishes its net income compared to the palm oil industry, which benefits from lower input costs and local resource control. Similarly, the oil and gas sector, while generating substantial revenue, faces high capital investments, compliance costs and market volatility, which can affect profitability.

Palm oil, being an agriculture-based commodity, offers a more stable and reliable income stream, making it an essential component of Malaysia's economic land-scape. Overall, the efficiency, local revenue retention and stability of the palm oil sector position it as a vital player in the country's economic growth and sustainability. Reinforcing the significance of this sector will be key to securing Malaysia's prosperous economic future.

while the palm oil sector faces significant challenges, its potential for growth remains strong. It is a well-known fact that we cannot compete with Indonesia in terms of land and labour availability. However, where we can excel is by branding ourselves for quality and focusing on technology development and adoption, holding the intellectual property rights. For it stance, Indonesia has developed a government funded ENA facility many rights. Shell testing, which is based on a Malaysian

innovation. By learning from the past and taking proactive steps towards sustainability, market adaptability, innovation and enhanced support systems, the industry can secure its place as a major contributor to Malaysia's economic future. The government must fully appreciate the importance of this golden crop and strengthening support systems through robust government policies is paramount.

Are planters and the industry doing enough in their operations on the ground to prepare for climate change?

The upcoming RSPO Principles & Criteria (P&C) standard [expected to be ratified by year end] has been revised to allow planters stronger pathways to address and mitigate climate change concerns by improving practices and operations on the ground, including clear prohibitions on major components linked to climate change, such as deforestation, conservation of peatlands, no open burning; clearer implementation and interpretation of guidelines with direct connection to climate-related market expectations and reporting requirements; better assessment of the climate change impact of operations, such as sourcing of petroleum-based fertiliser or reducing fossil fuel usage in favour of renewable energy, among others.

The revised P&C will also require the palm oil processing units to report their water consumption per unit of production and water withdrawal from surface/ground water sources. This will allow the processing plants to better optimise their water usage/footprint and encourage practices such as rainwater collection or grey water usage to reduce the impact of its water footprint. This is important given that weather patterns are changing because of warmer oceans, which could disrupt the monsoon cycle.

Climate change impacts on sea level rise is another conundrum that needs to be addressed, because of the risk of increased soil salinity and seawater infiltration. Any low-lying area near the coastlines would become vulnerable. Indicators in the RSPO P&C do indirectly address this, by way of restoration of mangroves and peatlands as coastal buffers. But the direct risk of salinisation rendering arable land unusable will pose a high risk.

The integration of sustainability and circular economy principles offers a transformative pathway to mitigate environmental impact while ensuring economic resilience. In contrast to the linear "take, make, use, dispose" approach typical of traditional economies, the circular economy model presents a paradigm shift, emphasising a "take, make, use, reuse" approach aimed at minimising waste and maximising resource efficiency. By viewing waste and pollution as flaws in the chain rather than inevitabilities, the circular economy promotes optimal production technologies, renewable energy utilisation and recovery of waste by recycling or giving it a second life as value-added goods.

On average, palm product yield is about 25% of the fresh fruit bunches (FFB), with the remaining 75% being waste thus providing an immense opportunity for integrating circular economy principles into the entire palm oil supply chain.

However, despite the promise, the implementation of circularity in the oil palm sector faces technological and cost-related challenges. Concerted efforts by both industry players and government stakeholders are essential for overcoming these challenges.

The oil palm industry has all the ingredients to power a circular economy revolution but the question remains: Will it embrace this opportunity wholeheartedly, or will it content its elf with mere lip service to sustainability?

The EC-proposed 12-month delay in im-

plementing the EUDR is welcome news for palm oil producer nations. However, it is also incumbent upon the EC to revisit the burdensome and complex due diligence requirements for it creates technical barriers for the export of our palm products.



ROSLIN AZMY HASSAN, CHIEF EXECUTIVE, MALAYSIAN PALM OIL ASSOCIATION

On the top three challenges facing the country's palm oil sector

Labour shortages

The ongoing shortage of labour, particularly foreign workers, is a critical issue. The palm oil sector, like other agricultural industries, depends heavily on manual labour for planting, harvesting and processing. Due to stringent immigration policies, delays in worker approvals and the pandemic-induced restrictions, the industry has struggled to maintain an adequate labour force. As a result, productivity and efficiency have been severely impacted.

Sustainability and environmental pressures

Increasing scrutiny from international markets, environmental groups and consumers regarding the sector's environmental footprint has led to rising concerns over deforestation, biodiversity loss and carbon emissions. Certifications like RSPO (Roundtable on Sustainable Palm Oil) are becoming mandatory to access key export markets, especially in Europe. Malaysia must continually address these issues, balancing its economic growth with its commitment to sustainable practices.

Global market dynamics and trade barriers

The palm oil sector is heavily influenced by global geopolitical tensions and trade barriers. Anti-palm oil campaigns, tariffs and restrictions in major markets, particularly the EUDR, present hurdles for Malaysia's exports. Additionally, competition from other vegetable oils, such as soybean and sunflower oil, means that Malaysia must stay competitive in terms of pricing, quality and sustainability.

On addressing these challenges Labour shortages

To address labour shortages, the industry must expedite the modernisation of plantation operations through mechanisation and automation. Technologies like drones for monitoring, precision agriculture and automated harvesting tools can help reduce reliance on manual labour. Additionally, the Malaysian government and the industry must streamline the foreign worker registration process and improve incentives to attract local workers by enhancing wages and working conditions.

Sustainability and environmental pressures

Malaysia is already a leader in sustainable palm oil production, with initiatives like MSPO (Malaysian Sustainable Palm Oil) certification covering 98% of the country's palm oil plantations. However, further efforts are required to enhance transparency and accountability. Promoting agroforestry,

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Transition to a more diversified, value-added industry necessary

FROM PREVIOUS PACE

strengthening biodiversity conservation practices and leveraging data-driven techniques such as satellite monitoring will bolster sustainability efforts. It's also vital to engage more effectively with international stakeholders to counteract negative perceptions.

Global market dynamics and trade barriers

In navigating global market challenges, Malaysia must continue diplomatic efforts to

counter trade barriers. At the same time, the industry must diversify its markets to reduce dependence on traditional buyers. Strengthening ties with emerging markets like the Middle East, Africa and Central Asia is crucial. Furthermore, Malaysia can focus on value addition - producing higher-end products such as nutraceuticals, bioplastics and biodiesel - to maintain competitiveness.

Malaysia has the technical expertise, policy frameworks and capacity to address these challenges. The widespread adoption of sustainable practices and investment in technology will be crucial. However, collaboration between the government, industry players and international organisations is needed to implement these solutions effectively. In some cases, such as labour shortages, addressing the challenge requires structural changes that go beyond the industry's direct control.

On industry preparation for climate change

While the Malaysian palm oil industry has

made significant strides in addressing climate-related concerns, more can be done to future-proof the sector. Climate change impacts, such as unpredictable weather patterns, droughts and floods, directly affect crop yields and productivity. To mitigate these risks, planters are increasingly adopting climate-resilient practices, including:

- · Diversifying crop varieties: New hybrid varieties of oil palm that are more resistant to extreme weather conditions and pests are being developed.
- · Agroforestry and soil conservation: Some planters are integrating agroforestry practices, which combine crops with trees to improve soil health and biodiversity, while reducing the sector's carbon footprint.
- Water management systems: Efficient irrigation and water retention systems are essential to adapt to erratic rainfall patterns.

However, to further prepare for climate change, the industry needs to scale up research into adaptive agronomic practices. implement climate-smart technologies more broadly, and ensure that reforestation and conservation programmes are expanded across the sector.

On the future of palm oil in Malaysia

Palm oil has been an integral part of Malaysia's economy for over five decades and will continue to play a vital role. The sector contributes significantly to employment, rural development and export revenue. While production has plateaued, especially due to land constraints, palm oil still holds enormous potential as a sustainable source of income for Malaysia.

The future of the palm oil sector will hinge on its ability to transition from a primarily commodity-based industry to a more diversified, value-added industry. There is a growing emphasis on downstream activities, including the development of biobased products such as oleochemicals, cosmetics and pharmaceuticals. By leveraging cutting-edge technology and innovation, Malaysia can explore higher-value palmbased derivatives. For instance:

- · Nutraceuticals and food ingredients: Palm oil is increasingly used in health supplements, functional foods and fortified food products. These products have higher profit margins and growing demand globally.
 - Renewable energy and biodiesel: As the world moves towards greener energy, palm oil can be an important component of Malaysia's renewable energy sector through the production of biodiesel and biomass.

For Malaysia to remain competitive, continued investment in research and development, innovation and human capital is required. The government and industry stakeholders must collaborate to foster an ecosystem that supports technological advancement, value addition and compliance with international standards.

In conclusion, while challenges persist, the Malaysian palm oil sector has demonstrated resilience and adaptability. The future success of the industry will depend on how effectively it can innovate, embrace sustainable practices and respond to evolving global market conditions. With the right strategies, the palm oil sector can continue to be a key driver of Malaysia's economic growth while also contributing positively to environmental and social outcomes.

Roslin was previously CEO of Upstream Malaysia, SD Guthrie Bhd

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