



**Agribusiness and Marketing Assistance Service**

[Abaca](#) | [Banana](#) | [Broiler](#) | [Coconut](#)  
[Coffee](#) | [Cutflower](#) | [Hogs](#) | [Mango](#)  
[Onion](#) | [Seaweeds](#) | [Table Eggs](#) | [Tilapia](#)

---

## • PALM OIL INDUSTRY SITUATIONER REPORT

### I. INTRODUCTION

The history of palm oil can be traced back to the days of the Egyptian paraohs 5000 years B.C. The oil palm, however, is a native of West Africa. It was introduced to Malaysia at the start of the 20th century and commercially produced in 1917. Today Malaysia's oil palm plantations cover 40% of its cultivated land, and it has become the world's largest producer and exporter of palm oil. Indonesia has also embarked on a massive oil palm plantation program, and having a much bigger land base, it is expected to catch up soon with Malaysia.

In the Philippines, oil palm plantations began in the late sixties. But its expected rapid growth was slowed down when the Comprehensive Agrarian Reform Law was passed, and agrarian reform policies discouraged leasehold agreements between the CARP beneficiaries and the industry players.

Meanwhile the local demand for palm oil rose at spectacular pace with the advent of the rapidly expanding food and industrial manufacturing industries in the hands of the medium-scale and the giant conglomerates.

### II. THE ROLE OF THE PALM OIL INDUSTRY

Known to be the most productive oil crop, a hectare of oil palm can produce 5 tons of crude palm oil. This is 5 to 10 times more than the yield of any commercially grown oil crop. With this potential, a palm oil industry in the Philippines at full-scale development could play a significant role in improving our balance of payments through the production of palm oil as import substitutes and as a major export. It could also play a leading role in the government's effort of effecting the social amelioration of our impoverished masses if nucleus farms and milling plants were set up strategically in the 304,350 hectares throughout the Mindanao areas identified by the Southern Philippines Development Authority as feasible for this crop, and farmers, organized as cooperatives, participate as out-growers for the nucleus farm nearest to them. The nucleus farm provides technology and planting materials, supervises their farming activities, and buys their produce for processing by the milling plant into the crude palm oil and palm kernel oil for the domestic and export markets.

### III. USES OF PALM OIL

Palm oil's unique composition makes it versatile in its application in food manufacturing and in the chemical, cosmetic and pharmaceutical industries. Its semi-solid physical properties are

needed in many food preparation. Its non-cholesterol quality and digestibility make it popular as source of energy, while its technical and economic superiority makes it preferable as base material in the manufacture of various non-edible products.

In the food industries, palm oil is the choice for manufacturing solid fat products. Palm oil olein and stearin are popularly used worldwide in making margarine, shortenings and confectionery, and in frying snack foods.

Palm oil is cost-effective as it needs not go through expensive hydrogenation process. Its high content of natural antioxidants and its stability at high temperatures make it excellent as a deep frying medium. It also gives fried products a longer shelf life, while its bland taste brings out the natural flavors of food.

Palm oil is also used in the manufacture of soaps, detergents and other surfactants. It is a good raw material for producing oleochemicals, fatty acids, fatty alcohols, glycerol and other derivatives for the manufacture of cosmetics, pharmaceuticals, household and industrial products.

Oleochemicals manufactured from palm oil and palm kernel oil are now popular for the manufacture of environmentally friendly detergents as they are readily biodegradable.

#### IV. THE PLANTATIONS AND MILLING FIRMS

##### A. THE FIRMS WITHIN THE INDUSTRY

The first oil palm plantation in the Philippines was established by Menzi and Co. in Basilan. Sometime in 1967 Kenram Philippines, Inc. started converting their ramie plantation into oil palm. No new plantation was put up until 1981 when NDC, in partnership with Guthrie of Malaysia, organized the Filipinas Palmoil Industry, Inc., and began developing in Agusan del Sur the biggest oil palm plantation in the country. In 1983 some local businessmen, together with their Singaporean partners, organized the Agusan Plantations, Inc.

##### B. EMPLOYED LABOR FORCE

The employed labor force of the plantation and milling firms totalled 1,467 in 1996.

##### C. SIZE OF THE PLANTATIONS AND MILLING PLANT CAPACITIES OF THE MAJOR INDUSTRY PLAYERS

The size of the oil palm plantations are as follows:

Filipinas Palmoil Industries, Inc. (FPIL)	8,000 has.
Agusan del Sur	
Agusan Plantations, Inc.	1,800 has.
Agusan del Sur	
Kenram Philippines	1,600 has. nucleus farm
Sultan Kudarat	3,000 has. (outgrowers)
	4,600 has.

Menzi & Company's plantation was turned over to farm workers' cooperative and was not replanted. Thus the major players' total plantations was 14,400. FPIL's plantations was formerly the NDC-Guthrie Plantations and Estates. Kenram's plantation was organized into a nucleus-

outgrowers scheme.

The milling plants and their individual capacities:

- |                                       |                  |
|---------------------------------------|------------------|
| 1. Filipinas Palmoil Industries, Inc. | 36 MT/hr. FFB 1/ |
| 2. Agusan Plantations, Inc.           | 20 MT/hr. FFB    |
| 3. Kenram Philippines, Inc.           | 22 MT/hr. FFB    |

*1/ Fresh Fruit Bunches*

#### **D. ANALYSIS OF THE PLANT CAPACITY UTILIZATION OF THE INDUSTRY PLAYERS**

It is quite apparent that the three industry players have installed oversized milling plants to anticipate the implementation of the planned expansion of their plantations. Pending such expansion, their cost of production is relatively high, particularly on power, diesel and fuel, plant maintenance and depreciation.

As per interview between the writer and Mr. Chang, the manager of Agusan Plantations, Inc., they have recently installed a 20-ton capacity milling plant, and have started commercial milling operation only last January 1998. The plant operates regularly in one shift with overtime during peak production season, from October to January.

Agusan Plantations operates a 2,000-hectare oil palm plantation. Having access to productive clones from Papua New Guinea, and with a unique soil and climate, a hectare of the plantation produces 25 metric tons of fresh fruit bunches. Thus the Plantation yields 45,000 metric tons of fruit bunches yearly. This is below, however, its milling plant's requirement of 132,000 metric tons of fruit bunches, to enable it to operate in two shifts with overtime, for a total of 22 hours, and for 300 days in one year, if it were to utilize 92% of plant's capacity to approximate management's ideal of achieving profit maximization. To produce 132,000 metric tons of fresh fruit bunches annually, Agusan Plantation has to expand its 2,000 hectares plantation to 5,280 has. The total production of its current plantation, at 50,000 metric tons of fruit bunches annually, can keep its 20-ton capacity plant operating daily at the average of 34.7% utilization, for 300 days a year, or an average of only 8-1/2 hours daily.

Similarly, Kenram Philippines has to expand its 4,600-ha. plantation to 5,927 has. to produce 145,200 metric tons of fruit bunches (at 24.5 metric tons of fruit bunches/ha.) annually to place its 22-ton capacity milling plant at 92% capacity utilization. At the current size of its plantation, which produces 112,700 metric tons of fruit bunches, it can only keep its plant operating daily at 71.17% utilization, for 300 days a year, or an average of 17.08 hours daily.

Filipinas Palmoil has also to expand its 8,000-ha. plantation to 9,698 has. to produce 237,600 metric tons of fruit bunches and keep its plant operating at close to profit maximization. Its current yield of 196,000 metric tons of fruit bunches can only keep its 36-ton capacity plant operating daily at 75.62% capacity utilization, or an average of 18.15 hours daily.

#### **V. SUPPLY AND DEMAND OF PALM OIL**

Appendix I shows an analysis of the supply and demand of palm oil from 1985 to 2015. Production data from 1985 to 1995 are derived from the 1997 Food and Agribusiness Yearbook, and from 1996 to 2015, they are projected by the writer, based on the 1997 Food and Agribusiness Yearbook assumption of 5% annual growth rate in demand for crude palm oil for the next decade.

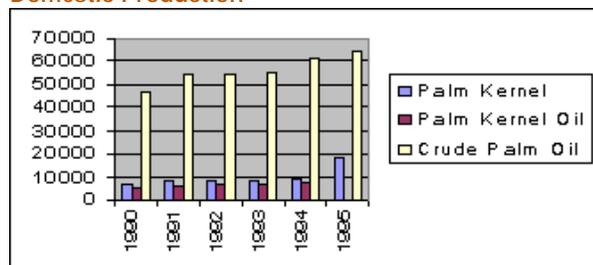
Import data from 1985 to 1991 were gathered from Prof. Rolando Dy's commodity paper on palm oil, and from 1992-1997, from the National Statistic Office (NSO). From 1998 to 2015, they were projected by the writer, based on industry's sources' claim of 5% yearly growth rate in demand for imported palm oil products.

An upsurge in palm oil investment by foreign and local investors, arising the industry's output to unprecedented levels, will significantly alter the projections, however, particularly on palm oil imports. Such a possibility may not be remote under a more favorable investment climate, to include special long-term financing for palm oil with a 7-year grace period, and duty-free importation of planting materials and farm equipment.

A major attraction for investors is the expanding domestic demand for palm oil amidst a remarkably insufficient local supply. Local production could only supply much below 50% of the expanding domestic demand. According to Mr. C. K. Chang of Agusan Plantation, Inc. He said that this is manifested by the fact that not a single bottle of refined palm oil could be found in any market in Mindanao. Refined palm oil and palm kernel imports by the food manufacturing and industrial sectors averaged at 20,800 metric tons from 1996 to 1997, as per NSO data.

The first recorded local production of crude palm oil and palm kernel were 34,000 and 5,700 metric tons respectively, in 1984. This rose to 61,000 and 9,200 metric tons in 1994, and to 64,700 and 18,000 metric tons in 1995. Farm value of production was P700 million in 1995.

### Domestic Production



From 1993 to 1996, local production and sales averaged at 61,430 metric tons, representing 66.8% share of the local market, while palm oil imports for the same period averaged at 33,500 metric tons, for a 33.2% share of the market.

Domestic demand for palm oil increased by more than 10% annually, from 31,000 tons in 1986 to 80,000 tons in 1994. Industry sources estimate importation to increase by 5% annually for the next decade. The 1997 Food and Agribusiness Yearbook, University of Asia and the Pacific, also conservatively estimates local demand to grow annually by 5% for the next decade. FAO data from 1990 to 1994 also reflects a 5% demand growth rate for palm oil.

Assuming domestic demand for palm oil to increase by 5% annually from 1995 to 2015, it will reach 82,600 metric tons by 2000, 134,500 metric tons by 2010, and 171,700 by 2015. To meet this demand, the industry players have to expand their current plantations and out-grower farms to 18,723 has. by 2000, to 30,499 has. by 2010, and to 38,934 has. by 2015 (assuming 24.5 metric tons of fruit bunches per ha., and a conversion ratio of 18% from fruit bunches to crude palm oil).

Hence, there is a bright prospect for the industry players to increase their production to meet the expanding demand of the domestic market, and eventually for export.

## VI. MARKETING SYSTEM

The plantation and milling firms produce crude palm oil and palm kernel which they sell directly and individually to their common market, which includes the following:

1. Asian Plantations Philippines, Inc.
2. Ricor Mills Corporation
3. Universal Robina Corporation
4. RFM Corporation
5. Mina Oil Mill Corporation
6. Oleo Fats, Inc.
7. Royal Oil Products
8. Barons Marketing
9. Pacific Oil Products

The above companies, which are engaged in downstream processing of crude palm oil, produce the following:

1. RBD (Refined, bleached and deodorized) palm oil.
2. RBD Palm Olein
3. RBD Palm stearin
4. Hydrogenated Palm Oil

These products are used by the food and industrial manufacturing companies which include the following:

1. Ansi Corp.
2. Universal Robina Corp.
3. Windsor Corp.
4. Serges Products
5. Meadow Brand
6. Dayton Corp.
7. G. A. Import Sales
8. Royal Oil
9. Tantuco Enterprises
10. JNJ Oils Industries
11. United Coconut
12. Malabon Soap
13. Nestle Philippines
14. Trigon Link Industrial Corp.
15. United Chemical
16. Mina Oil
17. Oleo Fats, Inc.
18. Sandoz Nutrition
19. Nutrifats & Oils
20. GLY Marketing
21. Trade Manila
22. Handyware Phils.

## VII. THE PROBLEMS OF THE PLANTATION AND MILLING FIRMS

Item 2 of the position paper, dated October 27, 1993, which the Philippine Palm Oil Growers Association submitted to the Tariff Commission states:

That government should put in place the necessary infrastructure such as roads, bridges and port facilities for the efficient transfer of products from farm to market."

During the writer's telephone interview with President Hector Quesada of the Philippine Palm Oil Growers Association this July 14, 1998, the latter specifically cited the substandard infrastructure in San Francisco, Agusan del Sur, which their transport facilities pass in carrying their products to the Butuan seaport for shipment to Manila.

Mr. Quesada also mentioned high interest rate and the absence of a financing scheme that is tailored for developing oil palm plantations. He said that the three-year grace period offered by government financing institutions for commercial oil palm growers should be extended to five years, which is the time frame when project returns begin flowing in.

The manager of Agusan Plantation, Inc., Mr. C. K. Chang, also cited similar problems during the writer's interview with him. He further said that oil palm should be included under the Gintong Ani Program for High Value Commercial Crops because its economic importance is comparable to any crop under this Program.

On the need of the palm oil industry for long-term financing, Mr. C. K. Chang explained that in the case of Agusan Plantation, it is not their company but the farmers' cooperatives, participating as out-growers for their anchor farm, which need long-term financing that provides for a 7-year grace period and 10-year repayment of the loan plus the yearly interest. He further said that while the oil palm starts yielding fruit in 2.5 years after planting, the harvest is not yet of commercial quantity. It is only after the 7<sup>th</sup> year that the harvest becomes substantial to generate a positive cash flow, and the monthly earnings for the farmers become ample for their livelihood and other needs.

### VIII. RECOMMENDED SUPPORT PROGRAM

The government does not presently have any intervention program to support the infant palm oil industry. In the absence of such support, the key industry players recommend that the government intervenes in behalf of the palm oil industry by initiating the following:

1. Repair the substandard roads in production sites, such as, Agusan del Sur and Sultan Kudarat, which are used in transporting palm oil products from the milling plants to the seaport.

During an interview with the Manager of Agusan Plantation, Inc., Mr. C. K. Chang, in August and September 1998, the former also recommended the second and third items:

2. Tax-free importation of oil palm seedlings and farm equipment to be used by farmers cooperatives as planting materials for their out-grower farms and for the land preparation and cultivation of these farms, respectively.

3. The above incentive should also be granted to private growers, cooperatives and joint venture corporations.

These incentives are expected to usher the following :

1. Unprecedented expansion of the joint venture scheme of the three industry players through out-grower farms of farmers cooperatives and the entry of more foreign and local investors in the palm oil industry.

2. Massive employment of the Philippines' idle manpower from Regions IX to XIII, and other parts of the country, where the project will be implemented (the Southern Philippines Development Authority (SPDA) has conservatively identified some 304,350 hectares in Mindanao as potential areas for oil palm production in these regions (Appendix 1).

3. Improvement of the country's Balance of Payment and generation of more foreign exchange earnings through significantly increased production of palm oil as import -substitutes and for export.

4. Transformation of the Philippines from an import-dependent on palm oil into a major exporter of this commodity within this decade.

The World Bank, in its Study released in July 1998 (Philippine Star, Business Section, August 31, 1998) has in fact cited the "lack of duty-free scheme for the importation of capital equipment and machinery" as a weak point in the government incentives to attract foreign investors. The Study further cites as weak points the inadequate *net operating loss carry over* (NOLCO) and lack of accelerated depreciation provisions in the tax code," and recommends the extension of the NOLCO to 10 years, the adoption of accelerated depreciation, and "other universal measures that should be available on an automatic basis to all new investments".

The provision of accelerated depreciation for capital equipment and machinery is being adopted by industrialized countries not only to strengthen the market for such capital goods and therefore preempt the onset of recession but also to reduce the taxable income of an enterprise as well as facilitate capital recovery. Thus it is a major incentive for foreign and local investors. If a scheme for accelerated depreciation were designed for the players in the palm oil industry, it would make this industry more attractive to foreign and local investors.

RA 8435, states that, "All enterprises engaged in agriculture and fisheries as duly certified by the Department in consultation with the Department of Finance and the Board of Investment, shall, for five (5) years after the effectivity of this Act, be exempted from the payment of tariff and duties for the importation of all types of agriculture and machinery such as, but not limited to, fertilized, insecticide, pesticide, tractor, trailers, trucks, farm implements and machinery, harvest, threshers, hybrid seeds, genetic materials, sprayers, packaging machinery and materials, bulk-handling facilities such as conveyors and mini loaders, weighing scales, harvesting equipment, spare parts of all agricultural equipment, fishing equipment and parts thereof, refrigeration equipment, and renewable energy systems such as solar panels. Provided, however, that the imported agricultural and fishery inputs, equipment and machinery shall be for the exclusive use of the importing enterprise."

*Appendix 1. Potential Areas for Oil Palm Planting in Mindanao*

REGION / PROVINCE	HECTARAGE
<b>Region IX (Western Mindanao)</b>	
Zamboanga del Norte	7,530
Zamboanga del Sur	31,430
<b>Region X (Northern Mindanao)</b>	
Agusan del Norte	10,370
Agusan del Sur	7,490
Bukidnon	65,090
Misamis Occidental	10,370
Misamis Oriental	1,440
Surigao del Norte	31,360
<b>Region XI (Southern Mindanao)</b>	
Davao del Norte	2,070
Davao Oriental	6,220
South Cotabato	17,000
Surigao del Sur	93,790
<b>Region XII (Central Mindanao)</b>	
Cotabato	1,180
Lanao del Norte	830
Sultan Kudarat	5,630
<b>ARMM</b>	
Lanao del Sur	3,280
Maguindano	9,270
<b>TOTAL</b>	<b>304, 350</b>

*Source: Southern Philippines Development Authority*

[back to top](#)