Palm Oil Industry Prepares For Rocky 2012

SPECIAL PDF REPORT

DECEMBER 2011

A worker piles up palm fruits at a palm plantation in the Serdang Bedagai district of Indonesia's North Sumatra . REUTERS/Y.T Haryono

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THOMSON REUTERS

Weak global economy, high premium to Brent to weigh on palm oil-Fry

By Niluksi Koswanage

NUSA DUA, Indonesia Dec 2 (Reuters)

Southeast Asian palm oil prices may come under pressure as a looming global economic recession weighs on Brent crude oil , making the edible oil less attractive for use in competing biodiesel, a top industry analyst said on Friday.

Slowing output as key producers enter the rainy season will also boost the tropical oil's premium over Brent crude to more than $100 a tonne, setting the stage for an eventual drop in palm oil prices, said James Fry, head of LMC International.

The London-based analyst stuck to an earlier forecast made in November that benchmark palm oil futures could fall to $850 per tonne by June if Brent crude pulls back to $79 a barrel on a possible global recession triggered by the euro zone and U.S. debt crisis. Palm oil futures on the Bursa Malaysia Derivatives Exchange are trading above $900 a tonne. Brent crude, which has gained about 15 percent so far this year, is trading around $108 a barrel, or about $810 per tonne.

"Watching the world economy today is very much like waiting for a train crash to happen," Fry said at the Indonesian Palm Oil Conference in Bali island.

"With many signs of slowing world trade, this weakness will hit the growth in demand for oils, not only for food, but also for biofuels, as transportation is affected," he added.

Any correction in the crude oil markets will come as recent high prices trigger demand rationing and stimulate new discoveries and output, Fry said.

And every $10 per barrel drop in crude oil will cut all edible oil prices by $70 a tonne, he added.

SLOWING OUTPUT GROWTH

Fry said the impact of petroleum prices is the single most important factor on palm oil with stocks becoming a secondary driver based on how levels affects the edible oil's premium or discount to biofuels.

"A floor exists for crude palm oil prices at a point where high stocks drive prices down so far that it becomes profitable to make and use biodiesel with limited benefit from subsidies," he said.

"However, when stocks are low, food demand for oils will have to keep these oils away from biodiesel output, and this will pull crude palm oil above the price floor."

Turning to palm oil production, Fry said it is starting to slow globally after months of strong growth and as the new cycle unfolds, year-on-year quarterly crude palm oil output growth is briefly likely to turn negative towards the middle of 2012.

That points to a higher premium for palm oil prices over diesel prices during the next six months as stocks get cut, he said. Indonesia and Malaysia account for 85 percent of total palm oil output globally.

A worker loads palm fruits into a truck at a palm plantation in the Serdang Bedagai district of Indonesia's North Sumatra. REUTERS/Y.T Haryono

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POLL- Supply recovery, gloomy economic outlook to weigh on 2012 palm prices

By Michael Taylor and Niluksi Koswanage

NUSA DUA, Indonesia, Dec 2 (Reuters)

Average palm oil prices are likely to fall to 3,115 ringgit ($990) a tonne next year, down from 2011's record average, on expectations of output recovery after a spell of erratic weather and a bleak global economic outlook, a Reuters poll of edible oil producers, traders and analysts shows.

The figure is down 4.2 percent from an average of 3,250 ringgit logged so far in 2011.

This year's average price is set for a record thanks to heavier than usual rains hurting Southeast Asian output in the first quarter and robust demand from emerging markets that intially offset the early effects of the euro zone debt crisis.

The survey of 13 poll respondents was carried out at the 7th Annual Indonesian Palm Oil Conference over three days.

The result comes in slightly higher than the median in a poll earlier this year as many contributors still hewed to views of strong demand next year.

"Production growth will be normalized in 2012, while demand should grow steadily along with the increasing population and incomes," said Andrian Tanuwijaya, an analyst at Trimegah Securities.

Palm oil rose 1.8 percent to 3,047 ringgit per tonne by 0322 GMT, but is down around 20 percent this year, squeezed by worries about slowing economic growth and sovereign debt concerns weakening demand for raw materials.

"Supply is not going to be affected, we are going to see the global economic scenario driving the market," an India-based edible oil trader said.

Production in Indonesia, the world's top palm oil producer, is estimated to hit 23 million to 24 million tonnes in 2011, but could rise by as much as 1.5 million tonnes next year, a leading planter told Reuters this week.

Some market players said this was a marked decline from previous years, when Indonesia's production increase could be 2 million to 3 million tonnes a year, and this kept prices from falling too low.

The major swings in palm oil prices would come from Malaysia's production, which will grow at an even smaller rate, thanks to limited acreage. This year Malaysia's output is expected to rise to 18.3 million tonnes.

Both countries account for more than 90 percent of global supplies of the edible oil, which used in products such as food, cosmetics, tyres and biofuels, which is likely to hit 45 million tonnes for 2011.

"Production is seasonally lower (November to February) and it will prop up the price but any gains are going to be wiped out by the euro debt crisis and the potential recession it brings," he added.

Palm oil investor sentiment has improved in recent weeks, however, on lower production expectations from the fourth quarter, as dominant Southeast Asian producers enter the rainy season and the La Nina weather pattern is seen to be returning. But despite many planters reporting limited or no dramatic impact from the heavy rains for now, some market players remain bullish.

A worker holds up palm fruits before they are processed at a local palm oil factory in the Serdang Bedagai district of Indonesia's North Sumatra .REUTERS/Y.T Haryono

Key comments from the Indonesian Palm Oil Conference

NUSA DUA, Indonesia Dec 2 (Reuters)

Following are the highlights of the Indonesian Palm Oil Conference and Price Outlook 2012 in Bali island where analysts, planters and traders outline key ideas, prices and issues within the $40 billion global industry.

GUO JIA HUA, DIRECTOR, DONGLING GRAIN & OIL LTD

"Vegetable oil stocks, particularly commercial stocks will be drawn down in 2011/2012 because of higher increase of consumption. Import volume for both oilseeds and vegetable oils will be higher because of stronger consumption and replenishment of state reserves."

"Our estimates for 2011/2012, is quite different from the USDA figure, and from the China National Grain and Oilseed Research Centre figure. For the coming crop year, production to be reduced, the returns of soybeans to farmers is lower than corn."

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" We expect China soyoil imports to increase to 1.5 million tonnes, rapeseed oil at 700,000 tonnes and palm oil at six million tonnes."

DEROM BANGUN, VICE CHAIRMAN, INDONESIAN PALM OIL BOARD

"It is a success in terms of no new plantations opening," he said in reference to a forest clearing ban imposed by Jakarta this year as part of a $1 billion climate change deal with Norway."

"Climate change, global warming, carbon stocks, are not very well comprehended by the farmers - it must be translated into simple terms.

There is now a gap between the global trend of climate discussion, with the farmers - they simply don't understand."

DAUD DHARSONO, PRESIDENT DIRECTOR, SMART TBK

"From the upstream point of view, the export tax is a bit of a burden. For the downstream point of view, it could be an incentive. Because I'm a planter, I'm upstream and would say the export tax have a more negative point, compared to a positive one."

He said the industry hoped the government would bring the tax levels lower.

FRANS CLAASSEN, GENERAL MANAGER OF DUTCH PRODUCT BOARD OF MARGARINE, FATS AND OILS

"We want the import tariffs on the European side and the differentional export taxes in Indonesia and Malaysia to be removed (for palm oil)."

"We are not very happy in the changes in the differential palm oil export tax from Indonesia. My suggestion is let the markets decide where is most economic and viable place to refine and process palm oil."

"So lower the differential export taxes and think about how you Indonesians can use your export taxes to promote sustainability."

EMILY FRENCH, MANAGING DIRECTOR, CONSILIAGRA

"There is no serious weather threats to production across the globe, barring South America. Palm oil production is on the decline for now but there just isn't a supply shock or a weather threat. I need something more bigger than that."

"World supplies of grains, oilseeds, meal and vegetable oils are interpreted as ample. Market sentiment will shift to a buyers market. I have a lot more vegetable oil, soybean buyers buying in the spot market."

"World crush margins remain poor/weak. The strong oil leg does not help. It is not fun being a crusher. It's a struggle.

It will probably by soymeal that shows the new lows, followed by soybeans in December."

"Market moving to a net short position in the soy complex -- soybean and bean oil (first time since mid-2010). Soymeal is the shortest since 2006."

A worker transports palm fruits on a bicycle at a palm plantation in the Serdang Bedagai district of Indonesia's North Sumatra. REUTERS/Y.T Haryono

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AMBONO JANURIANTO, PRESIDENT DIRECTOR OF BAKRIE SUMATERA

"Total production of Indonesian smallholder palm oil in 2010 is 7.6 million tonnes (out of a 23.2 million tonnes forecast by the government that year)."

"Total smallholder planted area in 2010 is 3.0 million hectares (out of a total 7-8 million hectares, government data shows)."

Indonesia launches RBD palm olein futures next week

By Niluksi Koswanage

NUSA DUA, Indonesia, Dec 1 (Reuters)

Indonesia Commodity & Derivative Exchange (ICDX) will launch a palm olein futures contract for trading on Dec. 9, its chief executive said on Thursday, as the world's top palm oil producer uses lower export taxes to boost its idle refineries and supplies more products globally.

Speedy approval given by Indonesia's Commodity Futures Trading Regulatory Agency signals the country's need to play a greater role in setting prices, said Megain Widjaja, Chief Executive Officer of ICDX.

Initially the contract was to be launched early next year.

"This is market-driven initiative.

When we launched the Indonesian crude palm oil futures , market players were asking to focus on RBD palm olein," Widjaja told Reuters at the sidelines on an industry conference in Bali island.

"Volumes will pick up and we will keep on doing new products. With this new refined palm olein contract, traders can lock in the difference with the buying price of crude palm oil with the selling price of olein," he added.

Refined, bleached and deodorised (RBD) palm olein is a high-value edible oil used in cooking oil in top food-consuming nations such as China and also parts of the Middle East. It is also heavily used in Indonesia.

UNFAIR TO COMPARE WITH DALIAN

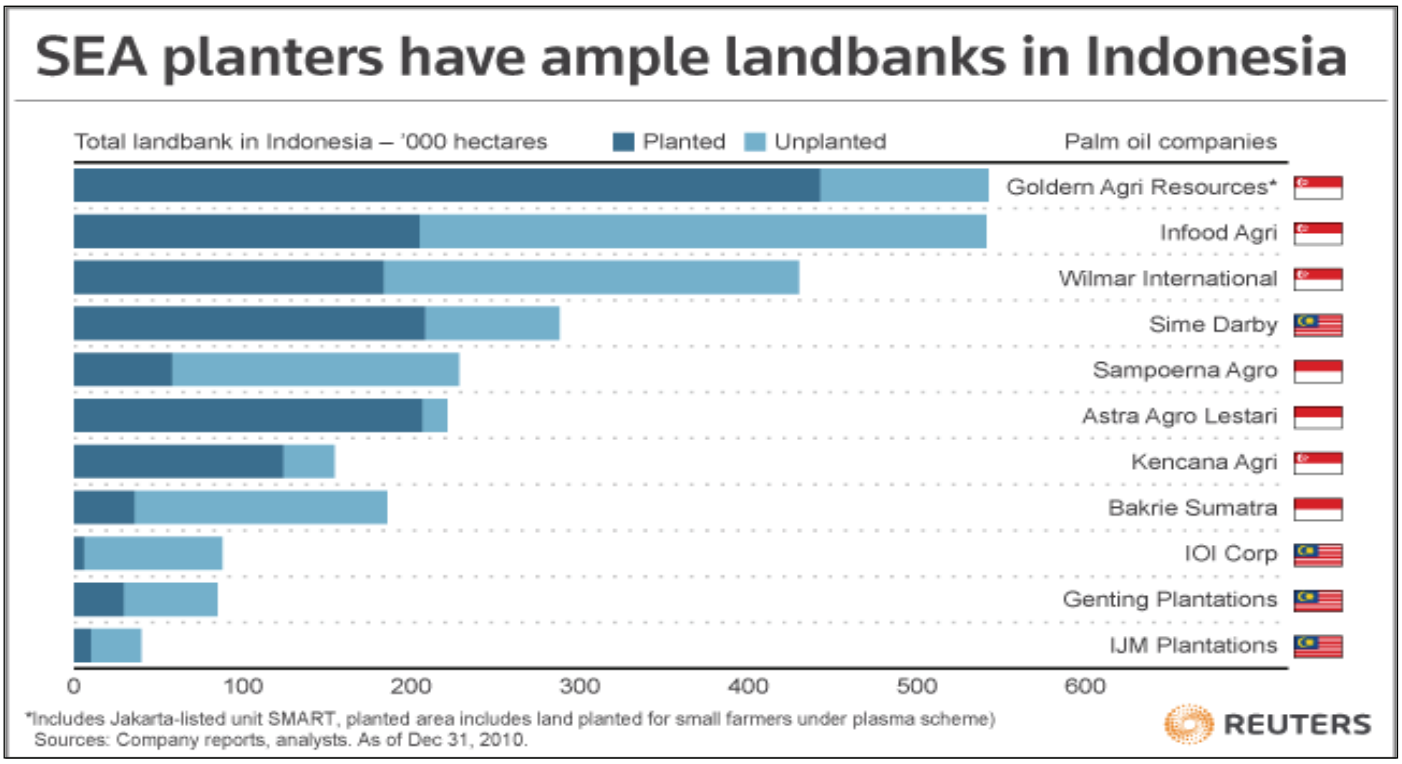
Widjaja said ICDX would be happy if the RBD palm olein contract could turn 100 lots a day in the first few days or weeks, and eventually follow in the footsteps of the crude palm oil contract where an average of 4,000 lots are traded daily.

"It is unfair to compare us to the refined palm oil contracts on the Dalian Commodity Exchange in China where the volumes are very high," he said.

"That contract serves a different purpose and we are clearly starting a contract to help our refiners especially when more factories are starting up due to the favourable export tax situation," he added.

Volumes on the Dalian Commodity Exchange have surged from its debut in 2007 on strong hedging demand in the world's top buyer of processed edble oil.

In September, Indonesia imposed an export tax differential where crude palm oil was higher than refined products to spur its idle processing capacity and lure in investments. Jakarta now sets its export tax levels partially based on ICDX's crude palm oil futures and Widjaja hopes the same opportunity would be given for the RBD olein contract.



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The settlement of the RBD olein contracts will be done via physical delivery with delivery points in Jakarta, Semarang and Surabaya -- key port cities in Java island where most of the refineries are based. "We are basing these contracts at the heart of the industry and where we hope to get the maximum impact of price discovery," Widjaja said.

"Yes, industry data is hard to get, but we have to make a start with futures markets and pricing instead of standing around at such an exciting time," he said in response to concerns of a lack of data hampering price discovery.

India palm imports from Indonesia likely to jump-IPOB

By Michael Taylor

NUSA DUA, Indonesia, Dec 1 (Reuters)

Imports of Indonesian palm oil by top buyer India are likely to rise 10 percent each year for the next five years as rising population and wealth boost its purchasing power, the Indonesian Palm Oil Board (IPOB) said on Thursday.

India, the world's top vegetable oil buyer, will import about 3 million tonnes of crude palm oil from Southeast Asia's largest economy this year, Derom Bangun, vice chairman at the IPOB told Reuters.

Bangun, who is also the founder of PT Kinar Lapiga, an oil palm plantation company in north Sumatra, sees Central Asia and Ukraine emerging as strong palm importers in the coming years.

Indonesia, the world's top palm oil producer, will produce around 24 million tonnes of palm oil this year, Bangun said, with around 13.2 million tonnes processed by the domestic downstream sector. He sees downstream activities rising by between 15-16 percent next year.

"It is going to be rising because even at the moment, they have not utilised full capacity of the refineries, which already exist," Bangun said on the sidelines of the 7th Annual Indonesian Palm Oil Conference.

Bangun said he hoped the government would consider changes to its export tax system in early 2012, with the best solution being to change the way the tax is worked out each month to a system that makes it lower.

Indonesia changed the structure of its palm export taxes earlier this year.

It increased the export tax bottom for crude palm oil and slashed the export tax cap for refined palm oil as part of efforts to encourage downstream industries, secure domestic supplies and reduce volatility in cooking oil prices.

A worker piles up palm fruits at PT Perkebunan Nusantara VIII in Cimulang, Bogor, West Java province . REUTERS/Dadang Tri

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The Indonesian government's move to boost the refining industry threatens to undercut the world's No.2 producer Malaysia, and has also angered many refiners in India.

The palm export tax rate for the following month is now calculated based on CIF Rotterdam prices, Malaysian benchmark and Jakarta future prices, a finance ministry document showed.

"From many aspects, it is not the right structure, but we understand the reason for the government to have that kind of structure and tariff rate," Bangun said.

"It helps the future downstream industry ... I believe the government will consider to change or modify it."

Malaysia palm stock build seen with Indonesia tax changes

By Niluksi Koswanage

NUSA DUA, Indonesia Dec 1 (Reuters)

Palm oil stocks in Malaysia are set to rise if the government does not change policies in response to top supplier Indonesia imposing export tax differentials that favour shipping out refined products, a top analyst said on Thursday.

James Fry, Chairman of commodities consultancy LMC International, said processed palm oil inventories would grow as the No.2 producer struggles to keep market share with Indonesian exporters getting a price edge in shipping out more refined products.

And eventually that would lead to a decline in demand for crude palm oil for processing, further building up stocks in Malaysia.

"This is if the Malaysian government does not do anything about its tax-free export quotas for crude palm oil," Fry told Reuters on the sidelines of the Indonesian Palm Oil Conference in Bali island.

"I think they will do something. But for now, stocks will grow if we just focus on this issue in isolation." Fry declined to give a projection for Malaysian palm oil stocks, which include crude and refined grades, but said the effect would be apparent as more Indonesian refineries get revived and investments pour in for constructing processing plants.

Stocks are starting to come off in Malaysia on a seasonal slowdown in production and good export demand. In October, stocks dropped from the 21-month high seen in September.

With Indonesia more than halving its refined palm oil export taxes and keeping crude palm oil taxes virtually unchanged in September, more of the crude edible oil will get channeled to domestic plants. That is limiting supply for Malaysia where crude palm oil output has slowed on limited acreage, raising refining feedstock costs.

What is aggravating the situation is Malaysia enforcing its annual duty-free palm oil export quota, which this year was set at 3.3 million tonnes for selected planters, squeezing domestic supply.Malaysia does not tax refined palm exports but it imposes a high duty for crude palm oil shipment to protect its refineries.

"Malaysia's refined palm oil is more expensive compared to Indonesia. Stocks will build up and eventually we will see prices come off," Fry said. "Malaysian producers can become distressed sellers since you can't store the oil for too long."

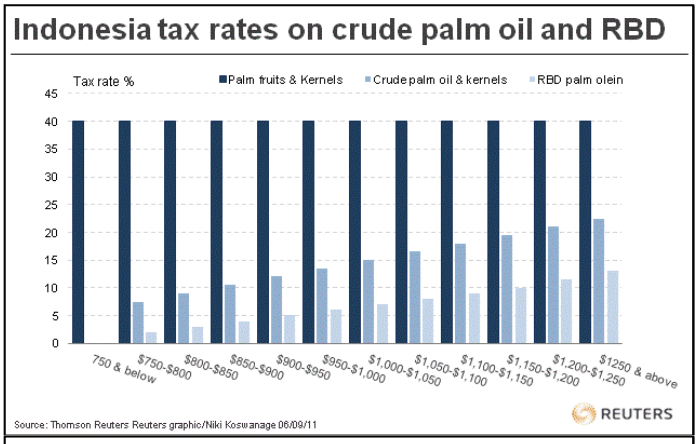
PRODUCTION NOT SO BAD

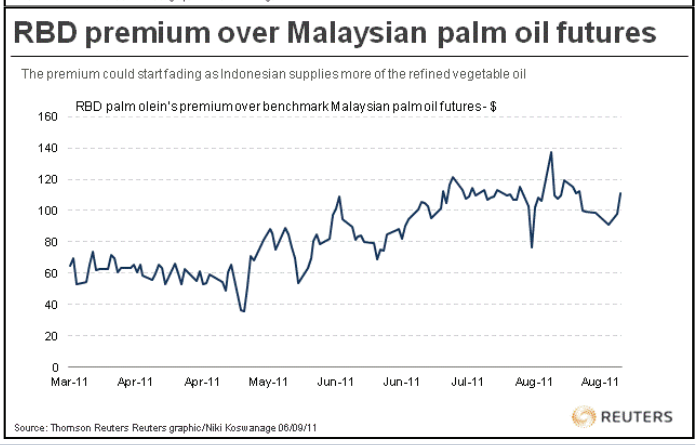
Production in Indonesia and Malaysia, which accounts for 85 percent of supply, is not going to be as bad as the market expects thanks to strong yield growth in the past few months, Fry said.

"Year-on-year, production towards the end of 2011 is showing some growth and probably it will be the same for next year," Fry said.

"Some in the market are getting too worried about the seasonal yield declines at the end of the year due to the monsoon weather when this should have been priced in."

"We cannot forget that Indonesia will provide the bulk of the production growth with more acreage coming into maturity," Fry said.





Asian palm-based biofuel may struggle in U.S.

By Niluksi Koswanage

NUSA DUA, Indonesia Dec 1 (Reuters)

Indonesian palm-based biodiesel shipments seeking a foothold in the United States will face stiff competition from feedstocks such as corn oil and waste oils, which will become cheaper as more supplies hit the market, a top USDA official said on Thursday.

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Indonesian processors must also first get a clear pathway from the Environmental Protection Agency (EPA) over concerns of higher emissions arising from converting the edible oil, said Michael Dwyer, director of the U.S. Department of Agriculture's global policy analysis division.

"The United States is frankly very competitive for biodiesel and it's going to be hard to justify for palm oil when it costs over $900 a tonne," Dwyer told Reuters on the sidelines of the Indonesian Palm Oil Conference on Bali island.

"With 75-80 percent of cost of producing biodiesel comes from the feedstock, the market is clearly going to stick with waste oils," he added.

Dwyer said key competition for palm-based biofuel could eventually come from corn oil as a feedstock -- a waste product from distiller's dried grains (DDGs) generated from converting corn into ethanol.

"There is appeal with corn oil. The U.S. has ethanol plants in place and the logistics have been set up years ago, so it's a matter of extracting more value from corn through its oil," he said.

While corn oil now costs around $1,300 a tonne, a greater commitment by U.S. ethanol producers to actively use this as a feedstock for biodiesel would bring more supply to the expanding biodiesel market, bringing prices lower.

The U.S. has the potential to produce 580 million gallons of corn oil, once taking into account that some of the oil is needed to keep the substance of DDG -- a valuable source of animal feed, Dwyer said.

Indonesia and Malaysia, the world's top palm oil producers, would be better placed to develop their domestic biofuel markets.

"These palm oil producers want to target external markets first where there are established mandates to grow their industries," Dwyer said.

"That is one way of looking at it. But I think another option would be to subsidise palm-based biodiesel at the pump back home rather than fossil diesel," he added.

Both the Southeast Asian countries control and subsidise domestic fossil fuel prices which are among the lowest in Asia. Any attempts to raise the price levels can often create a political backlash.

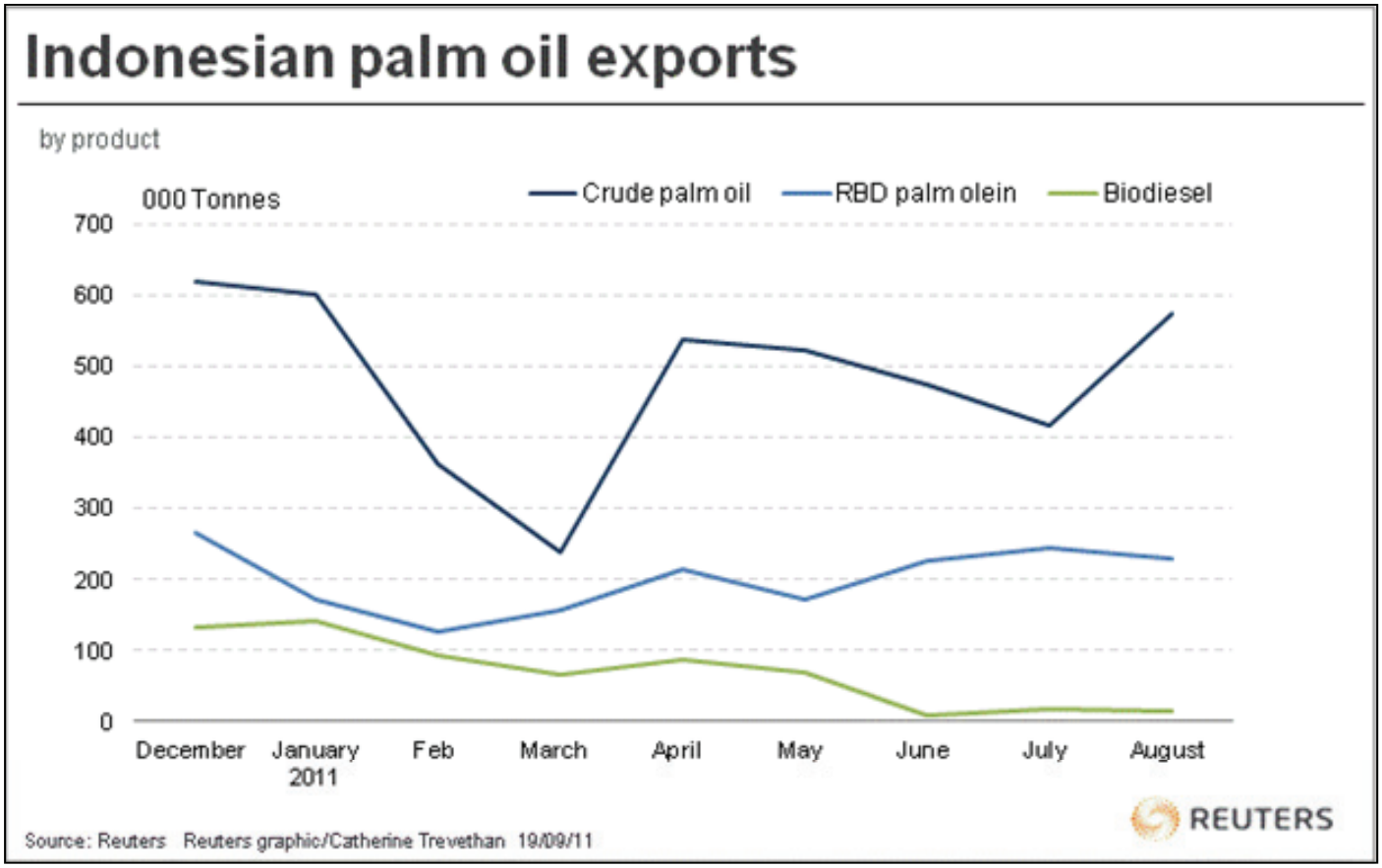
WTO LEGAL

Indonesia is banking on lower export taxes for palm-based biofuel than the crude feedstock to corner more markets like Europe and the U.S with their ambitious biodiesel mandates.

In September, the country made refined palm oil cheaper to ship out than the crude grade, stoking concerns that processors in major buying nations and competitors would see their capacity turn idle.

"It is trade distorting but its still WTO legal. Such use of export tax differentials have been on the agenda for World Trade Organization talks where there has been a call for a differential discipline," Dwyer said. The Doha round was launched 10 years ago with the goal of helping poor countries prosper through trade.

However, bitter divisions over how much developed countries should cut farm tariffs and subsidies in exchange for developing countries opening their markets have prevented a deal.



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Indonesia palm output at 24.5 mln T in 2012-SMART

By Michael Taylor

NUSA DUA, Indonesia, Dec 1 (Reuters)

Palm oil output in top producer Indonesia will rise as much as 6.5 percent to 24.5 million tonnes next year, while benchmark prices will drift lower until dry weather provides a boost from the second half, palm oil giant SMART said on Thursday.

Production in Indonesia, the world's top palm oil producer, is estimated to hit 23 million in 2011, but could rise by between 1.0 million and 1.5 million tonnes next year, Daud Dharsono, president director at Indonesia's PT Sinar Mas Agro Resources & Technology, or SMART told Reuters.

"Definitely go higher," said Dharsono, speaking on the sidelines at the 7th Annual Indonesian Palm Oil Conference. "The new plantings -- the immature become mature.

"Some people worry about El Nino (but) if it happens, it's in the second half," he added. "If in the second half, the affect will be the fourth quarter and the following year."

TALKS ON PURCHASES

Palm oil investor sentiment has improved in recent weeks on lower production expectations from the fourth quarter, as dominant Southeast Asian producers enter the rainy season and the La Nina weather pattern is seen returning. Malaysian palm oil futures traded 1.8 percent higher at 3,073 Malaysian ringgit ($970) per tonne on Thursday.

"My personal view is that the price will stay high," said Dharsono, whose firm has plantations mostly in the island of Sumatra.

"For the first three months of 2012, maybe the price will go down a bit, because production is going up... at the end of 2010 up to now, the weather is OK.

"In 2012, people suspect and are worried about El Nino again... and when the weather is dry, production for the second half will may go down," added Dharsono, who joined the firm in 1985.

Dharsono, who enjoys reading philosophy books in his spare time, also believes that an Indonesian government and industry target of hitting 40 million tonnes by 2020, is achievable.

"It is not impossible. The main thing is yield improvements," he said, adding that many smallholder farmers with low yields needed government help to boost yields and with re-planting.

Earlier this year, Anglo-Dutch consumer goods giant Unilever and Nestle , the world's biggest food group, resumed palm oil purchases with SMART, after the Indonesian firm made efforts to boost its green credentials.

SMART, which runs the Indonesia palm oil operations of its Singapore-listed parent Golden Agri-Resources , was given a mixed score card last year in an independent environmental audit after Greenpeace accused the firm of clearing peat land and forests that sheltered endangered species.

A worker screens crude palm in a local palm oil factory in the Serdang Bedagai district of Indonesia's North Sumatra. REUTERS/Y.T Haryono

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Major palm oil consumers such as Unilever, Nestle and Burger King stopped buying from SMART because of environmental concerns.

"We are now talking with other buyers that stopped buying from us, and are still in the progress of discussion," said Dharsono.

"Definitely our team from Golden Agri and our sales people, are in discussion with Burger King."

He added that SMART upstream and downstream products are mostly exported, and to countries that include China and India.

Dutch unhappy with Indonesia palm tax move

By Niluksi Koswanage

NUSA DUA, Indonesia Nov 30 (Reuters)

Palm oil plants in Europe will suffer from Indonesia's cut in export taxes in favour of refined palm oil over the crude grade, which will cut supplies of the crude feedstock, a top industry official told Reuters on Wednesday.

Frans Claassen, General Manager of the Dutch Product Board of Margarine, Fats and Oils (MVO) said the industry body had asked its government to bring up the issue with Jakarta this week at a bilateral meeting on the Indonesian island of Lombok.

"We are not happy. Indonesia's export tax changes has made crude palm oil prices more expensive than refined palm oil, limiting margins for our processors," Claasen said on the sidelines of the Indonesian Palm Oil Conference on Bali.

"This is clearly not helpful for current and future investments in the Netherlands. The Dutch government has put this high on their priority when they meet with the Indonesian government this week," he said.

Jakarta slashed refined palm oil export taxes in September and kept those for the crude grade virtually unchanged in a bid to keep more of the unprocessed oil domestically to revive its idle refining capacity.But this move has met with an outcry within the global palm oil industry

Top buyer India, which mostly sources Indonesian crude palm oil, has protested against the move that its government and industry officials say will idle the bulk of th its refining capacity.

Indonesia's main competitor Malaysia, the No.2 palm oil producer, also fears its extensive refining industry will be hit as Indonesian refiners can sell processed edible oil at cheaper rates, chipping its dominance in markets like China.

"We support the Indians and the Malaysians in their very public concerns about this," Claassen said.

"What the Indonesians are doing, affects not only Netherlands but big palm oil firms who have set up plants in our country are going to suffer."

Workers carry oil palm fruits to containers on their way into processing plants at PT Perkebunan Nusantara VIII. REUTERS/Beawiharta

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The Netherlands takes up to at least 2 million tonnes of palm oil from the six million exported annually to Europe, traders and analysts say.

The bulk of the shipments to Netherlands and Europe are in the form of crude palm oil that is processed in plants set up in the region by Malaysian firms like IOI Corp and Sime Darby .

Claasen declined to give an estimate on investments in palm oil refining plants within the Netherlands but said they were substantial.

GREEN PALM OIL

Claassen, who previously worked with the Dutch embassy in Indonesia as an agriculture attache, said the government in the Netherlands had started lobbying the European Union to exempt eco-friendly palm oil from a 3.8 percent import tax.

"The Dutch government has been very receptive and they are trying to put this high on the agenda for the European Union's current free trade agreement talks with Malaysia and Indonesia," Claassen said.

"We believe this will give both these producers more incentives to produce palm oil without destroying the environment. It's not about individual companies it is about whole countries as well," he added.

The slow sales of eco-friendly palm oil have angered producers in Indonesia and Malaysia, the world's top two exporters, who say they spend more per hectare to ensure they meet voluntary green standards set by a green industry body.

"To be fair, it is only in this industry that you see 10 percent of world production coming from green sources in just three years and we want to help the Indonesians and the Malaysians. We want to do our bit," Claassen said.

Indonesia 2012 palm output seen flat -Astra Agro

By Michael Taylor

JAKARTA, Nov 28 (Reuters)

Palm oil output in the world's top producer Indonesia will be little changed next year as weather fluctuations disrupt production, while higher demand will boost prices, an official at plantation giant PT Astra Agro Lestari said.

Indonesia is forecast to produce about 23 million tonnes of palm oil in 2011, but extreme weather will limit gains next year, Joko Supriyono, a director at one of Indonesia's largest listed plantation firms told Reuters on Monday. Last year, Indonesia produced around 21.6 million tonnes of palm oil.

"Experts say there will be La Nina next year, meaning more rain," said Supriyono, speaking ahead of the 7th Annual Indonesian Palm Oil Conference this week.

Workers carry oil palm fruits to containers on their way into processing plants at PT Perkebunan Nusantara VIII. REUTERS/Beawiharta

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"Usually more rain negatively impacts ... less rain also negatively impacts production," said Supriyono Palm oil investor sentiment has improved in recent weeks, due to lower production expectations from the fourth quarter, as dominant Southeast Asian producers enter the rainy season and the La Nina weather pattern is seen returning.

But Supriyono, who is also the secretary general of the Indonesian Palm Oil Association (Gapki), expects Indonesian production in the final quarter to be firm -- leading to flat benchmark prices.

"In general demand of vegetable oils is very tight," said Supriyono. "Incremental demand is higher than incremental supply ... the price will increase," he added on the 2012 outlook, without giving any price estimate.

Malaysian palm oil futures hit a two-week low on Friday, closing down more than 1 percent at 3,069 ringgit ($964) per tonne.

FISCAL INCENTIVES NEEDED

Earlier this year, Southeast Asia's biggest economy changed the structure of its palm export taxes as part of its efforts to secure domestic supplies and boost its downstream industries. Industry players also say the re-jigged export taxes - which cut the export tax cap on crude palm oil to 22.5 percent from 25 percent previously, and on palm oil products (olein) to 13 percent from 25 percent from Oct.

1 -- offer small farmers little incentive to replant. "The impact on our company is negative," Supriyono said at the firm's headquarters in central Jakarta.

It is likely that the government will again look at its palm oil export tax regime in 2012, Supriyono added, with a fixed or set taxation level preferable to the industry.

Downstream accounts for no more than 5 percent of the palm oil industry in Indonesia, and the government needs to set out a clear roadmap for developing the industry, Supriyono said.

"If we want to develop the downstream industry, the instrument needed for this is not an export tax," he added. "What we need is fiscal incentives ... also you need to think about infrastructure."

Astra Agro has 22 refineries -- with a capacity of 152 tonnes per hour -- and plans to open two more next year.

Controlled by the country's biggest listed firm Astra International , Astra Agro produced 1,113.3 tonnes of crude palm oil (CPO) last year, with output in 2011 until the end of October at 1,049.7 tonnes, company data showed.

Supriyono, whose firm employs 24,000 people and sells 97 percent of its palm oil to domestic buyers -- mostly by auction, was unable to give any company CPO forecasts for next year.

The company, which is not a member of the Roundtable on Sustainable Palm Oil, had 263,281 hectares of palm plantations in 2010 and at the end of October 2011, had 265,469 hectares in ten Indonesian provinces.

In recent years, the palm oil industry in Southeast Asia, has also come under increasing pressure to improve practices and halt deforestation blamed for speeding up climate change, ruining watersheds and destroying wildlife. Both Malaysia and Indonesia, who account for about 90 percent of global palm output, are pushing ahead with their own sustainability schemes.

Supriyono said certification process for the mandatory Indonesia Sustainable Palm Oil (ISPO) would likely come into affect in early 2012. "According to the government, it will start to ask for the big ten (planters) to join in the certification process first," he added.

Top analysts to present 2012 palm oil market forecasts

Nov 25 (Reuters)

The palm oil industry's top analysts will present their 2012 price forecasts for the edible oil at the Indonesian Palm Oil Association's two-day conference in Bali -- the last major conference for this year.

Following are the predictions made at last year's conference, how palm oil prices fared and topics that will be addressed by the analysts in this year's conference that starts on Nov. 30.

JAMES FRY:

Oxford-educated Fry heads consultancy LMC International that analyses commodity markets from rubber, coffee to oilseeds. Fry uses Brent crude oil, vegetable oil spreads to diesel and palm oil stocks for his forecasts that often tend to be bearish.

TITLE OF 2011 PAPER: Palm Oil, Lauric Oil Price, and Trend and Forecasting -- World Economic Outlook and Risk.

FORECAST IN 2010: Fry said Malaysian palm oil futures will fall to 2,600 ringgit by June 2011 on higher Asian production and a healthy South American soy crop.

In the first quarter of 2011 prices would rise sharply and then fall as palm oil's premium to petroleum diesel would be exceptionally high, Fry had said.

WHAT HAPPENED TO PRICES?

Palm oil prices did correct much earlier, after a three-year high of 3,967 ringgit was touched in mid-February 2011, thanks to expectations of strong production after heavy La Nina rains and floods.

By June the market had fallen to around 3,000 ringgit and was holding around those levels on strong Asian export demand from the food and fuel sectors.

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DORAB MISTRY

London-based Mistry is in charge of procuring raw materials for Indian conglomerate Godrej Industries .

He bases his forecasts on global supply and demand trends with a focus on India -- the world's largest palm oil buyer -- and production patterns in the No.2 producer Malaysia.

TITLE OF 2011 PAPER: 2012 Price Forecasting and Analysis for Palm Oil and Lauric Oil.

FORECAST IN 2010: Malaysian palm oil futures will hit 3,600 ringgit in December and January on tight global vegetable oil supplies from Southeast Asia to South America.

Mistry added the period of greatest supply tightness will be between February and May 2011.

WHAT HAPPENED TO PRICES?

The palm oil market hit 3,600 ringgit a week after Mistry made the forecast, thanks to lacklustre Malaysian production and La Nina rains affecting harvesting.

Malaysian stocks were the tightest in Jan-Feb and started climbing after that on weak exports and a gradual uptick in production.

Taxes, weather in focus at Indonesia's largest palm oil meet

By Michael Taylor

JAKARTA, Nov 25 (Reuters)

The impact of Indonesia's new palm oil export tax, the monsoon season and plans for a sustainability scheme are likely dominate talks at the largest gathering of industry players in the world's top producer of the edible oil, which begins next week.

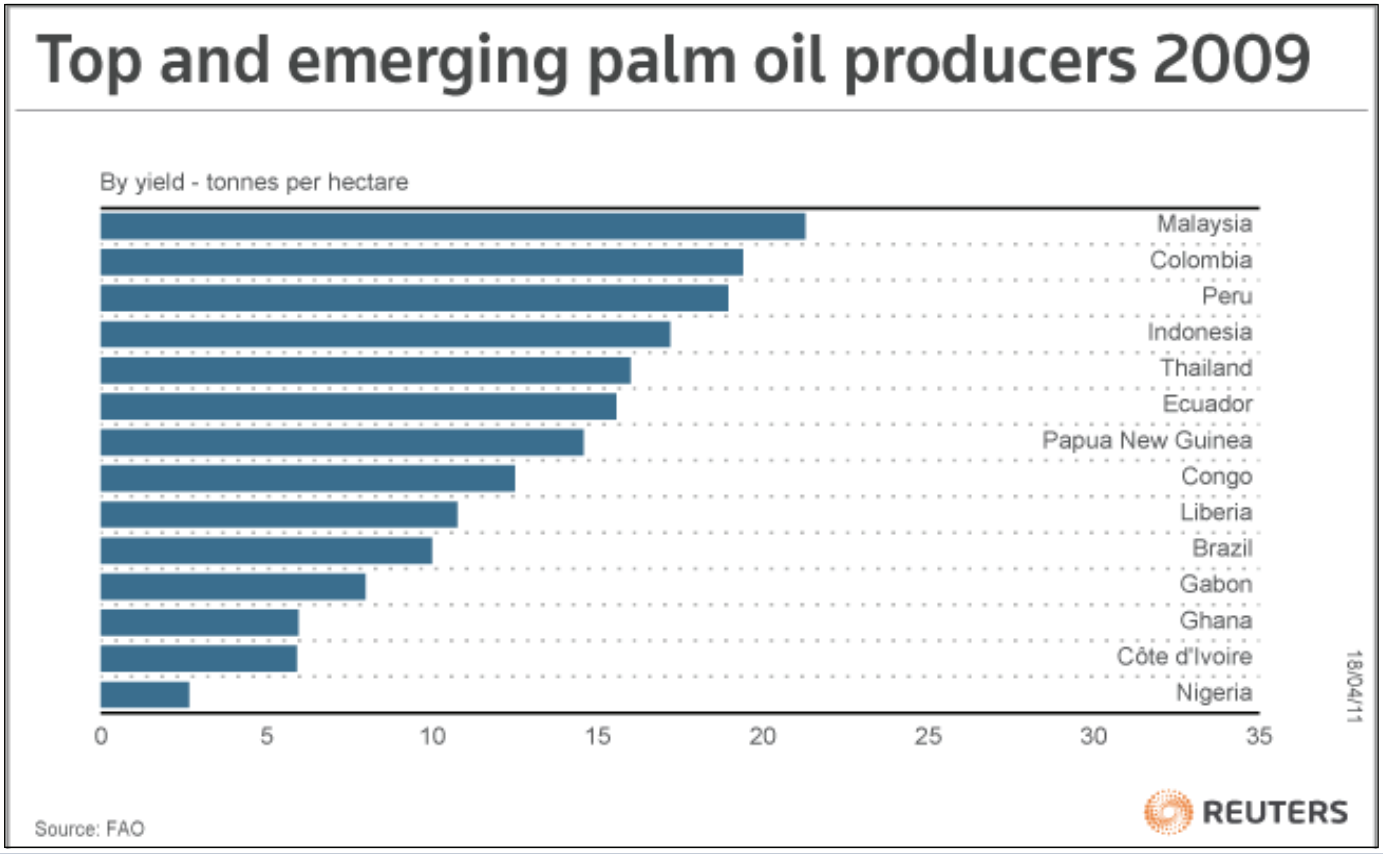
Earlier this year, Southeast Asia's biggest economy changed its palm export taxes, raising the structure for crude shipments and cutting that of the refined grade in an attempt to boost its downstream industries and secure domestic supplies.

These moves to boost the refining industry threaten to undercut the world's No.2 producer Malaysia, and have also angered many refiners in India, the world's largest importer of vegetable oils and Indonesia's biggest customer for palm oil.

"This move by the government and new export tax regime in Indonesia is causing a lot of heartache," said John Rachmat, a Singapore-based analyst at Royal Bank of Scotland.

"Not just for Indonesian players, but also Malaysian and Indian too -- so that will become a hot topic," he said ahead of the 7th Annual Indonesian Palm Oil Conference.

"GAPKI is up in arms about this new tax structure." GAPKI is the Indonesian Palm Oil Association, which represents the palm oil industry.



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The Indonesian government is under pressure from planters who say the recent tax change forces them to pay more to ship the crude grade overseas compared to the refined palm oil.

Indonesian industry players also say the re-jigged export taxes offer small farmers little incentive to replant and maintain their estates and the higher export tax for crude oil encourages smuggling. But other sectors in the industry see opportunities.

The Indonesia Commodity & Derivative Exchange (ICDX) plans to formally announce plans for a palm olein futures contract for refiners at the three-day conference on the island of Bali.

The move comes as palm output in the archipelago is expected to be about 23 million tonnes and exports will be around 17 million tonnes this year, the Indonesian palm industry has forecast, with a greater share coming from refineries.

WEATHER CHATTER

The implications of the monsoon season on Southeast Asian output will also be a major topic of discussion, especially after forecasts of lower output due to heavy rains.

"The rain last year was a lot during the whole year," Sebastian Sharp, head of investor relations at BW Plantations told Reuters. "This year it's been quite dry up until now. Now it is following a normal pattern for the rainy season."

Benchmark palm oil futures on the Bursa Malaysia Derivatives Exchange have fallen around 18 percent this year, partly due to the uncertain macro and sovereign debt picture and demand outlook.

Prices have however, gained about 12 percent since lows hit in October, due in part to expectations of lower output from the fourth quarter as the rainy season starts in dominant Southeast Asian producers and the La Nina weather pattern is seen returning.

"Because of the way the prices have been moving over the past few weeks, and on the back of news about weather being poor, it suggests a lot of traders are pricing in potential weather risk," Ivy Ng Lee Fang, Kuala Lumpur-based analyst at CIMB said.

"If this weather doesn't come in, then we have to adjust again," she added. "Nobody can forecast weather."

GREEN TALKING HEADS

In recent years, the palm oil industry has also come under increasing pressure to improve practices and halt deforestation blamed for speeding up climate change, ruining watersheds and destroying wildlife.

Another talking point at the conference will be September's decision by GAPKI to withdraw its membership from the Roundtable on Sustainable Palm Oil (RSPO), instead giving its full backing to an Indonesian sustainability scheme (ISPO).

The RSPO is an industry body of consumers, green groups and plantation firms that aims to promote use of sustainable palm oil products. Many major European palm oil buyers say the RSPO will remain as the international sustainability marker.

A worker screens crude palm in a local palm oil factory in the Serdang Bedagai district of Indonesia's North Sumatra. REUTERS/Y.T Haryono

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"There had been rumours of unhappiness among palm oil producers much earlier," said Alvin Tai, a Kuala Lumpur-based analyst at OSK Research. "It was probably a natural move."

Both Malaysia and Indonesia, who account for about 90 percent of global palm output, are pushing ahead with their own sustainability schemes, but these could take years to bed in and be accepted by global consumers.

Indonesia palm olein futures may hit a wall on thin data

By Niluksi Koswanage

KUALA LUMPUR, Nov 24 (Reuters)

Indonesia plans to roll out a new palm olein futures contract next year, its third try at pricing the market just as Jakarta uses lower export taxes to supply more refined products of the edible oil globally.

But a lack of reliable industry data from the world's largest palm oil producer will make it difficult for traders and analysts to price, implying this second attempt by the Indonesia Commodity & Derivative Exchange (ICDX) may also fizzle out.

A formal announcement on this olein contract will be made at the Indonesian Palm Oil Conference and Price Outlook in Bali next week.

The contract faces the 30-year old benchmark crude palm oil futures by Bursa Malaysia that sets the tone for the $40 billion industry, but is losing some of its pricing ability as Indonesian output has outpaced Malaysia's.

A bigger test comes from refined palm olein futures on China's Dalian Commodity Exchange, whose volumes have surged from its debut in 2007 on strong hedging demand in the world's top buyer of processed edible oil.

Indonesia export taxes: http://link.reuters.com/tyz53s

Here are questions and answers on the issue:

WHY IS INDONESIAN PALM OIL DATA CRUCIAL FOR FUTURES MARKETS?

Indonesian production is likely to make up half the global total -- versus 40 percent three years ago -- fanning concerns that markets cannot depend on regularly issued Malaysian data that shows slowing output growth to price cargoes. Also, Indonesia's push to boost annual refining capacity that stands from 6 million to 24 million tonnes, based on estimates from traders and analysts, will see processed palm oil exports grow in the next two to three years.

This will undo Malaysia's refined palm oil export dominance in big markets such as China and underlines a need for a new set of data to gauge real demand and supply.

WHAT IS THE IMPACT OF A LACK OF INDONESIAN DATA?

The success of Indonesian palm oil futures contracts cannot be guaranteed without reliable data.

Crude palm oil futures launched by ICDX last year and Jakarta Futures Exchange's 2009 physical trading platform attracts tiny volumes in part due to local producers' reluctance to reveal their trading positions.

HOW ABOUT PRICE MANIPULATION?

Price manipulation is one other consequence of lack of data. Indonesian firms sell crude palm oil at a small discount to Malaysian futures, tapping into the general supply tightness in the rival producer, retaining customers and making profits when Indonesian output is so much higher.

Also, spreads between benchmark Bursa Malaysian crude palm oil futures and Indonesian physical prices have become more volatile, driven by uncertainty over supply.

WHY IS INDONESIAN PALM OIL DATA SCARCE?

Buyers say the scarcity of Indonesian palm oil data is deliberate.

Top Indonesian palm oil firms compile their own data and often share information with one another although they will never reveal it to the market for fear of ceding the upper hand in the setting of physical prices.

Also, revealing the exact export data means tax officials could come after some Indonesian companies that tend to under-report cargoes leaving the ports in an effort to avoid tax.The issue is also about size.

The government has an uphill task in surveying exports, stocks and output due to the scale of the industry spread over the archipelago of 17,000 islands.

It boils down to governance.

Unlike Malaysia, Indonesia does not have a strong industry regulator to legally ensure that all firms and small farmers report their monthly operations.

WHAT ELSE STANDS IN THE WAY OF INDONESIAN PALM OIL FUTURES?

The Southeast Asian country does not yet have an established exchange with supporting back-office operations such as clearing houses.

That has prompted Indonesian planters, such as PT Astra Agro Lestari and the state plantations joint marketing centre, PT KPB Nusantara, to use Malaysian futures and crude palm oil prices in Rotterdam as the benchmark when auctioning daily output.

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Indonesia palm refining push shows more need for data

By Niluksi Koswanage

KUALA LUMPUR, Nov 11 (Reuters)

As top palm oil producer Indonesia leverages lower export taxes to supply more refined edible oil to the world, traders and analysts are finding industry data scarce and unreliable, complicating the task of accurately pricing the market.

The industry has depended on benchmark palm oil futures to set the tone for the physical market, with price movements based on competing vegetable oils and largely on data for output, stocks and exports of No.2 producer Malaysia.

But this has not been entirely reflective of the market, worth an estimated $40 billion annually, where Indonesia overtook Malaysia in 2007 as top producer and is now challenging its dominance in the refining sector. Indonesia export taxes: http://link.reuters.com/tyz53s

Here are questions and answers on the issue:

WHY IS INDONESIAN PALM OIL DATA SO CRUCIAL NOW?

Indonesian production is likely to make up half of the global total -- versus 40 percent three years ago -- fanning concerns that markets cannot just depend on increasingly smaller Malaysian output data to price cargoes.

Indonesia's push to boost annual refining capacity that stands from 6 million to 24 million tonnes, based on estimates from traders and analysts, will see more refined palm oil exports in the next two to three years.

This will undo Malaysia's dominance in big markets such as China and underlines a need for a new set of data to gauge real demand and supply.

In addition, Indonesia is part of the Group of 20 leading economies that have agreed this year to gather figures on the supply and demand of grain to tackle swings in food prices.

In October, the United Nations' Food and Agriculture Organisation (FAO) index of global food prices hit an 11-month low although global economic uncertainty and erratic weather hurting crops may spur more volatility.

If Jakarta is successful in reporting data on rice -- its main staple -- there will be greater calls to do the same for palm oil among analysts.

WHAT IS THE IMPACT OF A LACK OF INDONESIAN DATA?

Price manipulation is one consequence.

Indonesian firms sell crude palm oil at a small discount to Malaysian futures, tapping into the general supply tightness in the rival producer, retaining customers and making profits when Indonesian output is so much higher.

Security officers stand guard in front of palm oil storage tanks at the palm oil-based refinery plant owned by Sinar Mas Agro Resources and Technology (SMART) in Marunda, West Java March 30, 2011. REUTERS/Enny Nuraheni

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Also, spreads between benchmark Bursa Malaysian crude palm oil futures and Indonesian physical prices have become more volatile, driven by uncertainty over the supply picture.

Part of this is due to the changes in Indonesian export tax structure in September.

After Jakarta set export tariffs for refined edible oils below those for crude palm oil, prices of the Indonesian crude grade rose above Malaysia futures on speculation that more will be kept in the country for processing.

But with no clues to the country's refining capacity and Indonesians unable to keep up with big orders for processed oil, the sellers quickly disposed of the crude grade cheaply, creating more price swings. Major buyers of Indonesian palm oil cargoes include India and Europe.

India, the world's largest buyer, has been demanding for Jakarta to keep refined palm oil export taxes higher than crude palm oil, as many consumers in the South Asian country are snapping up processed cargoes, potentially pushing domestic refiners out of business.

But little can be done with Indonesia aggressively cranking up its refineries, spurred by the lower taxes, and so India will have to buy more refined palm oil cargoes.

China, the world's No. 2 edible oil shopper will likely stick to Malaysian refined palm oil cargoes that Chinese traders say is of a higher quality and whose delivery can be guaranteed. China will only switch to Indonesian refined palm oil if there are shortages in Malaysia, traders said.

WHY IS INDONESIAN PALM OIL DATA SCARCE?

Buyers say the scarcity of Indonesian palm oil data is deliberate. Top Indonesian palm oil firms compile their own data and often share information with one another although they will never reveal it to the market for fear of ceding the upper hand in the setting of physical prices. Also, revealing the exact export data means tax officials could come after some Indonesian companies that tend to under-report cargoes leaving the ports in an effort to avoid tax.

The issue is also about size. The government has an uphill task in surveying exports, stocks and output, because of the scale of the industry spread over the archipelago of 17,000 islands. It boils down to the need for governance. Unlike Malaysia, Indonesia does not have a strong industry regulator to legally ensure that all companies and small farmers report their monthly operations.

BW Plantation sees palm at 4,000 rgt in '12

By Michael Taylor

JAKARTA, Nov 24 (Reuters)

Palm oil producer BW Plantation (BWPT) expects strong demand and falling vegetable oil stocks to help push benchmark palm prices above 4,000 ringgit ($1,300) a tonne next year, an official at the Indonesian firm said on Thursday.

February palm oil futures on the Bursa Malaysia Derivatives Exchange dropped 2 percent to 3,097 ringgit ($970) per tonne at 0642 GMT.Prices have gained almost 15 percent since lows hit in early October, due in part to lower output expectations from the fourth quarter, as Southeast Asian producers enter the rainy season.

"If you look at the industry forecasts for next year, for edible oils, the soybean supply will slow down," Sebastian Sharp, head of investor relations at BWPT told Reuters, ahead of the 7th Annual Indonesian Palm Oil Conference in Bali next week.

"The stock ratio for edible oil will hit a multi-year low next year, so it's a very tight market," he said. "The supply growth of CPO is going to slow down... and the demand for CPO is going up."

Earlier this month, top industry analyst Dorab Mistry stuck to an earlier forecast that palm oil would reach 4,000 ringgit by mid-2012, on the view the world will not plunge into a recession due to resilient growth in Asia.

"The outlook for the price -- you can understand why people would be quite optimistic," Sharp said. "The main issue is supply and demand. We're very happy to agree with Mr Mistry."

BWPT's crude palm oil production (CPO) will also jump 20 percent this year, a result of the firm quadrupling its planted area over the last five years, from 91,000 tonnes in 2010, Sharp added.

Earlier this year, BWPT forecast output to rise 10 percent.

The Jakarta-listed firm will have about 62,000 hectares (153,200 acres) in Kalimantan province this year, and targets an additional 10,000 hectares each year.

"Next year should be more -- about 25 percent," said Sharp, whose company is a member of the Roundtable on Sustainable Palm Oil. "We're quite unique in our growth profile."

BWPT has two CPO mill s with capacity of 105 tonnes per hour, and has plans to build a new 30 tonne-per-hour mill that will be completed early next year, with a 60-tonne mill due for completion in early 2013.

"It's because of our growth," said Sharp, whose firm employs about 12,000 people. "We are going to be doubling out production in the next few years."

The firm sells its CPO to Indonesian refineries, with Singapore-listed Wilmar International its largest buyer last year and Sinar Mas Agro Resources and Technology the biggest as of September this year.

Earlier in 2011, Southeast Asia's biggest economy changed the structure of its palm export taxes as part of its efforts to secure domestic supplies and boost its downstream industries.

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"As a producer-upstream, the tax is reducing the price, so when you reduce the price you get more consumption... which eventually will make the price go higher," Sharp said.

"For us, we're focused in the upstream, so we're not expanding into downstream," he said. "We're not interested."

Palm oil production up 10 pct in 2011 -Sampoerna

By Michael Taylor

JAKARTA, Nov 23 (Reuters)

Output at palm oil firm Sampoerna Agro will grow by more than 10 percent this year, versus 289,000 tonnes in 2010 and higher than a previous estimate, an official of the Indonesian firm said on Wednesday.

Favourable weather will boost production, as will investments made on infrastructure such as road improvements and flood defences, Michael Kesuma, head of investor relations, told Reuters.

"We stated before a range of 5-8 percent growth over last year's figure," Kesuma told Reuters at the company's lavish headquarters in Indonesia's capital. "But so far, the year to date, our volumes have been really good.

"It should be higher than our original target ... one of the things that we have been extensively focusing on this year, is improving infrastructure -- namely the roads."

Sampoerna Agro's capital expenditure for the year to September was about 550 billion Indonesian rupiah ($60.81 million), with around a third of this sum being spent on infrastructure, Kesuma said.

He added that forecasts for next year had yet to be decided.

Earlier this year, Sampoerna Agro said output would rise by as much as 8 percent for 2011.

The company exports 25 percent of its palm oil to countries that include Malaysia and Singapore, with the remainder going to domestic buyers, Kesuma said, adding that Wilmar International was the biggest buyer of its crude palm oil (CPO) over the last four years.

DOWNSTREAM EYED

Earlier this year, Southeast Asia's biggest economy changed the structure of its palm export taxes as part of its efforts to secure domestic supplies and boost its downstream industries.

"It's good for the downstream because they really cut that a lot, but for the upstream not much change," Kesuma said. "The furthest downstream that we go to is a kernel crushing plant ... ultimately we would like to go downstream, but as of now we are concentrating on upstream."

A worker collects oil palm fruits at the state-owned palm oil plantation in Luwu, Indonesia's South Sulawesi province. REUTERS/Yusuf Ahmad

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The firm, which listed on the Jakarta stock exchange in 2007, has about 105,000 hectares either managed or under its guidance, located in South Sumatra and Central and west Kalimantan.Sampoerna Agro has maintained its membership of the Roundtable on Sustainable Palm Oil (RSPO), despite the Indonesian Palm Oil Association's (Gapki) recent surprise decision to withdraw from the industry body.The RSPO, which groups planters, green groups and consumers, is the only other major group to have set green standards for the whole industry.Indonesia, which will produce about 23 million tonnes of palm oil this year, is pushing ahead with its own sustainability scheme, but implementation is not expected for years and may not be accepted by all global consumers.

Unlike the RSPO, however, which does not impose sanctions on members who violate its voluntary standards, those found to be breaking the mandatory Indonesian Sustainable Palm Oil (ISPO) rules will be punished by law.

Sampoerna Agro, which employs between 10,000 and 11,000 people, is currently taking part in an initial ISPO trial, Kesuma said.

"ISPO is clear in that it will be the national standard, and is a really good initiative," he added.

"We are going to use both ... if we harm mother earth, it will harm us back."

Sampoerna Agro, part of the Sampoerna Group, traded at 2,975 Indonesian rupiah ($0.33) a share by 0916 GMT.

Indonesia's ICDX to launch tin, olein palm contracts in 2012

JAKARTA, Nov 23 (Reuters) - The Indonesia Commodity & Derivative Exchange (ICDX) will launch a physical tin contract and palm olein contract in early 2012, its chief executive officer said on Wednesday.

Material for the physical tin contract will be supplied by members of the Indonesia Tin Association, including the world's largest integrated miner, PT Timah , ICDX's Megain Widjaja told Reuters.

"We will be doing a Bangka Belitung tin market," said Widjaja, adding that there would be an official announcement in mid-December.

"This will be a collaboration together with the association and the exchange. We will give an exact date about when the contract will go live, on December 15," he said, adding that a tin futures contract was likely to follow later in 2012.

Earlier this month, a group of tin smelters on Bangka island, the main tin producing region in Indonesia, agreed to set up pricing contracts in competition with the London Metal Exchange. At the time, metals analysts were sceptical that an Indonesian tin contract could rival the benchmark London contract or attract liquidity.

Indonesian smelters began a tin ingot export ban on Oct. 1 in an effort to boost prices, which they would like to see above $23,000 a tonne.There are 39 tin smelters approved by the Indonesian trade ministry to export refined tin. Exports totaled 92,487 tonnes last year and 99,287 tonnes in 2009, trade ministry data showed.

Tin traded at $20,800 a tonne on the London Metal Exchange at 0459 GMT. The metal, mainly used in solders for electronics, touched a record high above $33,000 a tonne in April.

Besides being the world's top refined tin exporter, Indonesia is also the top palm oil producer. Indonesia has an export tax system that aims to boost downstream industries, secure domestic supplies and reduce volatility in cooking oil prices.

Earlier this year, Southeast Asia's biggest economy changed the structure of its palm export taxes, raising the structure for crude palm oil shipments and cutting refined product (olein) taxes in an attempt to boost its downstream industries.

"We will be launching an olein contract," said Widjaja, adding that an announcement would be made at next week's annual Indonesian palm oil conference in Bali. "It will go live early next year as well."Earlier this year, the ICDX launched two gold contracts, which followed its launch of Indonesia's second palm oil futures contract in May 2010.

EU likely to curb Indonesian palm biofuel imports

By Niluksi Koswanage

KUALA LUMPUR, Nov 23 (Reuters)

European Union (EU) governments are likely to curtail their imports of Indonesian palm oil-based biofuel, which has become cheaper due to a tax cut, to protect their own domestic plants, a top analyst said on Wednesday.

"The EU has supported the build of local production capacity that is heavily underutilised and will not be able to survive if foreign competitors to rapeseed biodiesel cannot be kept out of the market," Fredrik Erixon, director of the European Centre for International Political Economy told Reuters.

Biodiesel producers in Southeast Asia and the Americas are making headway in Europe's lucrative renewable energy market, where demand has expanded thanks to official targets designed to slow global warming and limit dependence on fossil fuels.Erixon, who advises several European governments, said market access conditions for palm-based biodiesel should not ideally change given it is about 22 percent cheaper than European rapeseed-based biofuel priced at $1,490 per tonne.

But the European Union is certainly trying to change this, he said in an interview ahead of the Indonesian Palm Oil Conference and Price Outlook next week.

"I am pretty sure it is only a matter of time before Malaysia and Indonesia will find themselves discriminated upon access to the EU market." Three years ago, Jakarta first set an export tax for palm-based biofuel at a lower rate than crude palm oil, spurring Indonesian firms to turn palm oil into the renewable fuel and cornering the European market.

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In the most recent tax structure change in August, the tax-free threshold for a tonne of biodiesel was raised to $950 a tonne from the $800 range. The tax was capped at 7.5 percent. Growing market share for biodiesel made of Indonesian palm oil became more apparent this year with poor weather and limited acreage affecting the rapeseed crop -- the key feedstock for European biodiesel sector. Hamburg-based oilseed analysts Oil World said palm-biodiesel exports mostly from Indonesia to Europe will show a jump of more than 60 percent to 830,000 tonnes in 2011.

Higher imports have led to underutilisation of Europe's biodiesel capacity usage. Europe's biodiesel industry association EBB estimates utilisation rates have only reached 44 percent of the region's 22.1 million tonne capacity. EBB have also said they will ask EU Commission authorities to investigate Indonesian biodiesel that is getting exported to Europe at a price which is lower than the rates at which it is sold in the Asian country, seen as dumping.

U.S BIOETHANOL NOT SPARED

The move against Indonesian biodiesel comes as the EU trade authority plans to start an investigation into whether U.S. bioethanol exporters are getting unfair state subsidies and selling their fuel to Europe at low prices. Erixon said it was highly likely the EU would slap import tariffs in response to EU industry officials' complaints of unfair trade practices by the United States.

"The Commission is not difficult to convince -- it has a strong ambition to protect the local industry even if it produces an overall cost to the EU economy to slap duties on import from the U.S," he said.

Palm seen at 3,000-3,400/T rgt in next 3 mths -body

JAKARTA, Nov 22 (Reuters)

Benchmark palm oil prices will range between 3,000 and 3,400 Malaysian ringgit ($940-$1,100) per tonne in the next three months, as wet weather in Southeast Asia curbs output, the Indonesian Palm Oil Association (Gapki) said on Tuesday.

Benchmark February palm oil futures on the Bursa Malaysia Derivatives Exchange traded 1 percent lower at 3,158 ringgit per tonne at 0417 GMT. Prices touched a peak of 3,270 on Friday, a level not seen since June 15.

Despite an uncertain economic outlook, sentiment among palm investors is improving due to lower production expectations from the fourth quarter, as dominant Indonesian and Malaysian producers enter the rainy season and the La Nina weather pattern is seen returning.

"In Indonesia and Malaysia, palm oil supply is declining because of the rainy season," Gapki's head of marketing, Susanto, told reporters, ahead of the 7th Annual Indonesian Palm Oil Conference due on Nov. 29.

Indonesia, the world's top palm oil producer, will target bigger sales in eastern Europe and Central Asia, Fadhil Hasan, executive director of Gapki, told reporters.

"Gapki will follow a government direction to focus on East Europe, Central Asia and Turkey as new target markets, instead of Europe and United States, which are experiencing a financial crisis," Hasan added. Overall output in Indonesia, which overtook Malaysia as No. 1 palm oil producer in 2007, is expected to be about 23 million tonnes this year, according to palm industry forecasts. Global palm output is about 45 million tonnes. Top importers of Indonesia palm oil are India, Europe, China and then Africa.

A worker cleans crude palm oil inside a container at Tanjung Priok port in Jakarta January 26, 2011. REUTERS/Dadang Tri

Indonesian palm oil vital statistics

JAKARTA, Nov 23 (Reuters)

Indonesia, the world's top palm oil producer, is due to stage the 7th Annual Indonesian Palm Oil Conference from Nov. 29.

Delegates will discuss topics such as global economic activity and demand, the price outlook, the rainy season in top Asian producers and its implications on output, export taxes and sustainability.

Here are facts and figures on the palm oil industry in the archipelago of 17,000 islands:

- Indonesia's palm oil trees consist of three varieties, namely Dura, Pisifera, and Tenera.

- Overall output in Indonesia, which overtook Malaysia as No. 1 palm oil producer in 2007, is expected to be about 23 million tonnes and exports will be around 17 million this year, according to palm industry forecasts. Global palm output is about 45 million tonnes.

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- Sumatra, Kalimantan and Sulawesi are the main producing areas for palm oil, used in products such as food, cosmetics, tyres and biofuels.

- Palm oil estates already sprawl across more than seven million hectares of Indonesian land.

- Palm oil firms in Indonesia are struggling to meet their planting targets after torrential rains last year stalled work.

- There is a limited pool of specialised labour available for plantation work, and a skilled workforce is even more important to planters working toward boosting yields.

- It can take years to train people to work on palm oil plantations and Indonesian and Malaysian planters are vying for the available workforce.

- Key ports for palm oil exports include Belawan port in Medan and Dumai port in Riau. Belawan is not the biggest, but it is the only port that has integrated crude oil shipping infrastructure including storage tanks.

- Top importers of Indonesia's palm oil are India, Europe, China and then Africa.

- Indonesia has an export tax system that aims to boost downstream industries, secure domestic supplies and reduce volatility in cooking oil prices. The country more than halved export taxes of refined palm oils in mid-September.

- Earlier this year, Southeast Asia's biggest economy changed the structure of its palm export taxes, raising the structure for crude palm oil shipments and cutting refined product (olein) taxes in an attempt to boost its downstream industries.

- The Indonesia Commodity & Derivative Exchange launched Indonesia's second palm oil futures contract in May 2010, in the hope of creating a local price benchmark and rival to the well-established Malaysian palm oil futures contract .

The industry faces increasing pressure to improve practice and halt deforestation blamed for speeding climate change, ruining watersheds and destroying wildlife.

An Indonesian moratorium on new permits to clear forests took effect in May for an initial two years.

- The Roundtable on Sustainable Palm Oil (RSPO) is an industry body of consumers, green groups and plantation firms that aims to promote use of sustainable palm oil products and backed by many major European palm oil buyers.

- Many palm oil producers have criticised the RSPO for being too much in favour of green groups, and Indonesia is now pushing on with its own scheme, the mandatory Indonesia Sustainable Palm Oil.

- In late September, the Indonesian Palm Oil Association (Gapki) surprised many market players by withdrawing from the RSPO, instead giving its full backing to an Indonesian government-backed sustainability scheme.

Many misses with Indonesian palm oil futures contracts

KUALA LUMPUR, Nov 24 (Reuters)

> Indonesia is set to overtake Malaysia as the world's top exporter of refined palm oil in the next two to three years as firms ramp up processing capacity, although it has struggled to establish a benchmark price for the tropical oil.
>
> A lack of market participation by major palm oil firms in the world's biggest producer of the edible oil and unreliable data could lessen the success of Indonesia's latest project --palm olein futures due to be launched next year.

A formal announcement on the latest product by the Indonesia Commodity & Derivative Exchange (ICDX) will be made at a key industry conference next week in Bali.Here are details of recent efforts to trade and price Indonesian palm oil.

ICDX CRUDE PALM OIL FUTURES

ICDX launched a rupiah based crude palm oil futures contract last year in May in a bid to create a local price benchmark that rivals Bursa Malaysia's palm oil futures. But volumes have been very light. On Thursday, volumes stood at 30,080 tonnes compared to Bursa Malaysia's figure of more than 700,000 tonnes.

Exchange officials say that big companies like Wilmar International , SMART TBK and Duta Palma have started trading the futures. But the ICDX website shows volumes traded by members in October did not include these companies.

JAKARTA FUTURES CRUDE PALM OIL

The Jakarta Futures Exchange, known as BBJ, launched crude palm oil physical trade in June 2009 after the government ordered state plantations to sell 500,000 tonnes of their annual output via the exchange.

The idea aimed to make state firms pioneer trade at the exchange, and later attract private players to also bring their products to the exchange.

The move faced strong resistance even before it started, mainly because state firms have been comfortably pooling their products at a joint marketing center, now called PT KPB Nusantara.

After six months, BBJ said only 29,000 tonnes of crude palm oil was traded via the exchange or just 0.13 percent of the country's 2009 output.

JOINT ASIAN DERIVATIVES EXCHANGE (JADE) INDONESIAN PALM OIL

- The joint venture between CME and Singapore Exchange for a dollar-denominated contract for Indonesian crude palm oil started out in 2006 in a bid to grab some business from Bursa Malaysia as interest in commodity markets grew.

Industry observers said JADE's contract would be a better benchmark than Bursa Malaysia as Indonesia was the world's major source of crude palm oil exports while Malaysia shipped out more refined palm oil products.

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The contract debuted in June 2007 at the start of the commodity boom, trading on the JADE platform and CME's electronic trading platform.

But trading volumes so far have not been able to compete with Bursa Malaysia.

Just five months later, Singapore Exchange bought out CME's stake in JADE for S$1.14 million and moved the contract to its own trading platform after CME said the venture had not been a success. There have been no major trades from July 2009.

EU biodiesel plants fear closure as imports surge

By Michael Hogan and Ivana Sekularac

HAMBURG, Nov 15 (Reuters)

A number of European biodiesel refiners are likely to go under, and the EU will be under pressure to erect barriers to imports in the coming year as low demand in Europe for the green fuel combines with stiff competition from abroad.

"Many biodiesel companies are already in a critical situation, and there is a risk that this will be transformed into companies closing in the next months," said Raffaello Garofalo, secretary general of the European biodiesel industry association EBB.

"Many companies have already closed, especially in Germany and Spain."

The EBB estimates European Union 2011 biodiesel production capacity is at 22.1 million tonnes but that the industry is reaching only 44 percent of that capacity.

"Although the EU has got a nominal biodiesel capacity of more than 22 million tonnes, many plants have been at least temporarily closed down or idled and are not really producing," said Rabobank analyst Susan Hansen.

"This is for instance the case in Germany, Spain, or Italy but actually across the whole of the EU." A poor EU rapeseed crop has made palm oil and soyoil-based biodiesel more price attractive.

German oilseeds analysts Oil World forecasts EU biodiesel output will fall to 9.07 million tonnes in 2011 from 9.54 million last year largely because of competition from imports.

"EU imports of biodiesel have increased sharply so far this year and will probably reach a record 2.52 million tonnes in January/December 2011, up 21 percent from last year," Oil World said.

"We expect 1.4 million tonnes of biodiesel to arrive from Argentina and at least 830,000 tonnes from Indonesia and Singapore," Oil World says.

That compares with imports of 1.1 million tonnes from Argentina and 516,000 tonnes from Indonesia and Singapore last year.

European biodiesel producers came under extra pressure earlier this year as environmentalists questioned the EU policies for green fuels, after studies said the cultivation of rapeseed, palm or soybeans as a feedstock for biodiesel was worse for climate change than the use of regular diesel.

Biodiesel refiners themselves are often unwilling to talk about the depth of the problem. "The industry is in a very bad way, and we could see more closures pretty soon, especially in south Europe," said one German refiner, who declined to be named.

CRISIS CLOSE IN SPAIN AND ITALY?

A crisis could be approaching in Spain and Italy, where biodiesel capacity usage is falling to dramatically low levels.

"I cannot see how Spanish and Italian biodiesel producers will survive much longer at the terrible capacity usage rates we are currently seeing," one oilseeds trader said.

"The signs are that biodiesel imports are causing an alarming fall in local output."

Spain's 2011 biodiesel output will drop 31 percent on the year to 550,000 tonnes, Oil World estimates. Spain's biodiesel production capacity is 4.4 million tonnes.

Italy's 2011 biodiesel output is likely to fall 40 percent on the year to 450,000 tonnes, Oil World forecasts. Italy's annual capacity is 2.2 million tonnes. More EU imports of palm-based biodiesel are expected, especially from Indonesia.

"Biodiesel demand for Europe at least keeps us in business and will keep palm oil prices very supportive next year despite expectations for strong production," said an Indonesian trader who sells biodiesel to Germany.

But rising imports, especially from Indonesia, also threaten to create trade friction, with allegations of unfair prices.

"Palm oil and even biodiesel is sold in the internal market in Indonesia at a price which is higher than the price of exports to Europe," said the EBB's Garofalo. "There is clearly dumping. This also happens from time to time with Argentine imports.

"We are now talking to the EU Commission authorities to raise their attention to this issue."

Rabobank's Hansen said she would not be surprised if the EU moved to curb imports.

"Every time imports drastically increase, I believe the EU will find ways to - at least temporarily - put barriers in place by introducing tariffs on imported biodiesel for example," she said.

The EBB is also calling on European governments to take more steps to reach the EU's goal of 10 percent biofuel use in transport by 2020.

"This (low production) is a paradox when we have a desperate need to reduce greenhouse gases in transport to fight climate change," Garofalo said.

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India could burn fingers with aid to domestic palm refiners

By Niluksi Koswanage and Ratnajyoti Dutta

KUALA LUMPUR/NEW DELHI, Oct 7 (Reuters)

ndia's plan to hike a domestic levy on refined palm oil, designed to protect its refiners from cheaper exports by top palm oil producer Indonesia, will backfire in the absence of rival suppliers to meet the appetite of the south Asian nation.

The world's top edible oil buyer could end up spending more on Indonesian crude palm oil , which has risen as high as $84 over benchmark Malaysian futures after Indonesia raised taxes on the crude in the middle of September.

At the same time, Indonesia halved taxes on refined palm oil so as to boost exports as part of its tax system that aims to encourage downstream industries, secure domestic supplies and reduce volatility in cooking oil prices.

India needs crude palm oil to feed its refineries, but more expensive feedstock may force it to turn to refined palm oil -- which could also prove costly if New Delhi implements its own plan to raise the commodity's base value for tax purposes.

With inflation already running near 10 percent -- one of the highest levels among emerging economies -- and domestic oilseed production insufficient to meet the needs of a population of 1.2 billion, such a result would be disastrous for India.

"At the end of the day, India wants to save its processors and Indonesia wants to support its processors. Trading will get complicated," said Thomas Mielke, head of Hamburg-based oilseeds research house Oil World. "These two aims go against one another and if it is true that Indonesia has large capacity in store, it could have an upper hand eventually."

With No.2 palm oil producer Malaysia having already taken a similar step to protect its own refiners, levying its own high export tax on crude palm oil and curbs on tax-free exports of the grade, India has few alternative suppliers to turn to.

For a graphic on India's palm oil imports:

http://link.reuters.com/fus24s

For a pdf on Reuters coverage on Globoil:

http://link.reuters.com/rad24s

INDIA TO MORE THAN DOUBLE TAXABLE BASE

India now imposes a tax of 7.5 percent on the tariff value of crude palm oil at $484 a tonne, irrespective of importers' purchase price -- a low amount to fork out.

While the government has ruled out raising the import tax for fear of stoking inflation, industry wants New Delhi to more than double the taxable price levels to $1,100 a tonne, as the level is outdated

While the country's food ministry supports the demand, any decision can only be made by Finance Minister Pranab Mukherjee.

Government sources say India could bow to these demands in the next few days, possibly kicking in when the new marketing year starts next month.

Applying the existing 7.5 percent import duty on the new tariff value, the landed cost of refined bleached and deodorised (RBD) palm olein could rise to $1,183 per tonne -- an increase of 25 percent, or $238, over tax-free crude palm oil.

That more than reverses a discount of $152 a tonne RBD palm olein now enjoys over crude palm oil imports thanks to the Indonesian tax change.

"With the lower refined palm oil export tax, Indonesia's surplus refining capacity will ensure that crude palm oil export is reduced and replaced by export of refined palm olein," said Dinesh Shahra, managing director of Ruchi Soya Industries , India's biggest importer of edible oils. On the surface the new tariff value could maintain the composition of India's annual palm oil imports of some 6.3 million tonnes, with crude grade making up about 80 percent and the rest from the refined variety. But India will be hard pressed to maintain its import mix and preserve its processing capacity of 15 million tonnes -- the result of investment of up to $2 billion -- as Indonesia aggressively ramps up its own refineries.

INDONESIA'S REFINING CAPACITY

CIMB Investment Bank said in a note in September that Indonesia had 24 million tonnes of capacity by the end of 2009, much of it idle thanks to the previous tax regime that kept export taxes for crude and refined palm oil at par.

"Restarting at most takes six months. To build the refinery from scratch takes 18 to 24 months, so there is a very limited time frame for India to get used to the new landscape," said an Indonesian trader with a refinery in Sumatra island.

Once Indonesia beefs up or restarts capacity, refined palm oil could easily make up 60 to 75 percent of total exports that are expected to rise by at least 500,000 tonnes annually from 17 million tonnes this year, traders and planters estimate.

That will progressively limit Indonesian crude palm oil cargoes coming into India, further widening the premium consumers have to pay over benchmark palm oil futures. Scrapping plans to raise the base tariff for refined edible oils might ease the problem of a huge import bill for India but Indonesia is unlikely to abandon the lower export tax as it seeks higher earnings and investment.

"If the officials go with this policy, either way the (Indian) refiners are going to shut down their capacity with less crude palm oil and more RBD palm oil coming in," said a trader with a Singapore-based palm oil firm in Indonesia.

"The base tariff makes it more expensive and the Indians are landing themselves in hot soup," said the trader who declined to be identified for fear of annoying major Indian customers.

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PROBLEM NOT SOLVED?

Since Indonesia's export tax changes, traders say India has bought 250,000 tonnes of RBD palm olein for Oct-Dec shipment. This may be up to 17 percent lower than the more than 300,000 tonnes contracted for the same time last year, according to industry data, but the market expects more, and bigger, deals soon.

"It might happen that about half of India's monthly palm oil imports would be refined palmolein in the next three to four months," said Govindbhai Patel, a trader in India's western oilseeds centre of Rajkot.

Moving RBD palm olein directly from the ports to shops saves consumers $20 a tonne in costs over crude oil imports, which have to be transported to refineries, processed, and then distributed along India's shambling infrastructure.

"Raising the import tariff value provides some relief but it does not address India's poor infrastructure and the incredible wastage that pushes up cost," said Sandeep Barjoria, chief executive of Mumbai-based Sunvin Group, which trades a million tonnes of edible oil each month.

Indonesia's refined palm oil tax redraws landscape

By Niluksi Koswanage

KUALA LUMPUR, Sept 9 (Reuters)

Lower taxes on refined edible oil exports from top crude palm oil producer Indonesia are set to boost cooking oil supplies in the region, eroding margins for rival Malaysia and making cargoes cheaper for Asian buyers.

For decades, refined, bleached and deodorised (RBD) palm olein used in cooking oil enjoyed premiums of 5-10 percent over crude palm oil futures as No.2 producer Malaysia was the sole supplier with tax free exports and massive processing capacity.

But Indonesia's move to halve taxes on refined edible oil exports from October will draw more crude palm oil output into its refineries, limiting supply for key processing hubs such as Malaysia and raising feedstock costs.

"Such a move by the Indonesian government demands a variety of responses because it is a game changer," said Thomas Mielke, head of global oilseeds analysts Oil World.

"Export prices for refined palm oils will come down, importers will adjust their purchasing habits and the Malaysians will have to defend their market share," he added.

The economics are compelling for the Indonesians. Their margins for RBD palm olein could double to $100 per tonne from current levels, a survey of six traders showed.

RBD palm olein's premium: http://link.reuters.com/ryz53s

Indonesia export taxes: http://link.reuters.com/tyz53s

As Indonesia ships out more refined palm oil, Malaysia will have to slash prices to compete -- an inflation-busting prospect for top vegetable oil importer India with its billion plus population. This adds to the list of problems Malaysian refiners face, which include a strong ringgit currency and domestic output that is growing at a much slower rate than neighbouring Indonesia, with land for expansion close to running out.

"Refiners in Malaysia are getting anxious. They are meeting with the Malaysian government to see what can be done," said a trader with an international trading house in Kuala Lumpur.

"The message is clear: the difference now between the winners and the losers is having an Indonesian refinery."

Three years ago, Jakarta first set an export tax for palm-based biofuel at a lower rate than crude palm oil, spurring Indonesian firms to turn palm oil into the renewable fuel and corner the European market.

Indonesia exported half a million tonnes of palm methyl ester -- or biodiesel -- in the first half of this year as margins were double that of Malaysia, which only shipped out 7,000 tonnes of tax free exports, according to industry estimates.

INDIA TAKES NOTICE

For price-sensitive India, where food inflation recently accelerated to its highest in six months, the tax changes shift the economics towards imports of refined palm oil.

Indonesia will cap its export tax for the edible oil at 22.5 percent from 25 percent previously, while the cap on palm oil olein products was cut to 13 percent from 25 percent.

Applying the new tax rates to current export prices, Indonesian crude palm will cost $1,270 ringgit while RBD palm olein would cost $1,249.Even with India imposing a 7.5 percent import tax, the final bill for a tonne of RBD palm olein stands at $1,336 -- just 5 percent more than imports of tax-free crude palm oil.

"There are cost savings in importing the finished product rather than spending money to import crude palm oil and refine it in India. We could see some shutdown in Indian capacity," said Sandeep Bajoria, chief executive of Sunvin Group.

"At least 500,000 tonnes of refined palm olein will be taken up instead of crude palm oil in the short term," said Bajoria.

That would represent a 40 percent jump in refined palm olein imports that stood at 1.2 million tonnes in the marketing year ended October 2010.

India's crude palm oil imports over the same period were 5.2 million tonnes, according to the Solvent Extractors' Association.

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OPPORTUNITY IN CAPACITY GAP

A major hurdle for Indonesia's processed palm oil export push lies in the big refining capacity gap the country has with Malaysia, although this spells an opportunity for investors to build factories and profit from the lower taxes.

Indonesia does not have data on refining capacity but last year it shipped out 6.8 million tonnes of refined palm oil products that made up 43 percent of a total of 15.6 million tonnes exported, according to industry data.

That compares with Malaysia exporting 13.9 million tonnes of refined palm oil, accounting for 84 percent of total shipments, government data showed.Overall Malaysian capacity stood at 21 million tonnes last year, traders said.

"It is not just about importing more refined products, we could see a shift in business strategy. Indian and Chinese companies are surely going to set up plants in Indonesia," said a trader in Jakarta with a leading plantation house.

"The time to bridge that gap and get a critical mass would take at least three years," he added.

These potential palm oil investments can boost foreign direct investment that has hit $9.6 billion so far this year and is on track for a record. It is likely the investments will improve Indonesia's poor infrastructure, from roads to ports, that has lifted transport costs, curbed margins and made the country's palm oil less competitive than Malaysia.

Land banks buffer Indonesian palm oil from forest ban

By Niluksi Koswanage and Michael Taylor

JAKARTA/KUALA LUMPUR, May 25 (Reuters)

Palm oil firms in Indonesia can overcome a two-year ban on forest clearing by tapping into land reserves, but they face bigger problems attracting the labour needed to work the soil and boost yields.

The ban, effective from Friday, limits access to sensitive peat and forest regions and removes much of the uncertainty that had hung over the palm industry as Jakarta finalised the details.

Plantation firms can now turn their attention to how best to bring massive land banks into rotation profitably and how to boost yields from existing acreage, industry experts said.

"The moratorium is not about to create some supply shock although planters in Indonesia will be cautious on how they move forward in this new environment," said Abah Ofon, a Singapore-based commodities analyst with Standard Chartered.

	Oct	Sept	Aug	July	June	May	April	March	Feb
Crude palm oil	305,945	449,455	572,938	416,854	474,184	521,180	537,197	238,557	362,872
RBD palm oil	71,349	29,940	49,450	61,534	36,800	59,366	52,897	38,292	67,000
RBD palm oil	242,658	226,963	228,953	243,966	225,105	171,954	212,751	155,341	126,448
RBD palm stearin	49,663	71,976	53,850	9,607	36,991	49,869	84,997	41,697	27,914
Crude palm	21,107	47,952	34,208	57,430	43,163	56,500	24,949	61,347	46,693
kernel oil Processed	9,500	10,450	5,289	20,994	3,000	1,000	12,983	13,302	14,370
palm kernel oil									
PFAD	9,885	5,400	26,216	20,545	27,375	4,637	20,799	15,523	35,147
Others	111,248	58,858	81,610	74,198	152,550	69,284	50,121	55,785	83,701
Biodiesel	23,000	37,563	130,580	140,641	93,426	64,635	85,375	67,575	6,500

	Oct	Sept	Aug	July	June	May	April	March	Feb
India &subcontinent	374,827	405,904	417,736	420,014	480,310	391,710	415,768	187,231	229,173
Europe	132,296	194,523	324,419	278,386	279,982	200,401	209,378	120,647	79,183
Africa	69,873	99,697	138,031	60,702	144,812	70,468	110,829	83,221	87,206
China	165,489	112,449	105,601	90,089	100,919	100,980	130,700	112,901	73,957
Middle East	4,500	20,998	44,700	51,499	6,895	32,650	46,998	32,500	53,200

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"Investing in yields and falling back on their land banks will take on more importance. I think planters are already taking that on as a strategy."

For planter's land banks in Indonesia:

http://link.reuters.com/wyr69r

Special report on Indonesian deforestation:

http://r.reuters.com/jyh48q

A table on yields in major palm producers:

http://link.reuters.com/car98r

To compete with soyoil suppliers for the top vegetable oil markets in India and China, the world's top palm oil producer needs to produce more palm oil per hectare.

The UN's Food and Agriculture Organisation data show Indonesian average, annual yields stand at 18 tonnes of fresh fruit bunches per hectare, lower than Malaysia's 20 tonnes in 2009 and keeping productivity in the region at 76 percent of estimated potential.

"Indonesia has been getting by with the sheer volume of palm oil coming from large, maturing plantings," said an agronomist with a Jakarta-listed plantation firm. "With the moratorium, there is a cap and now, planting right and yields really matter."

Uncertainty in the longer term over the moratorium still exists. Planters still face the question as to whether the moratorium will be extended after the two years is up, yet more reason for them to concentrate on boosting yields from existing acreage.

OUTPUT GROWTH SLOW

Indonesia on Friday froze new permits on forest clearance to secure a $1 billion deal with oil and gas rich Norway that aims to preserve 64 million hectares of carbon rich forests and peat lands across the archipelago to slow global warming.

Palm oil estates already sprawl across seven million hectares of Indonesian land and are expected to produce 24.3 million tonnes of the edible oil this year, according to government estimates.

This represents growth of 1.2 million tonnes on the year, half of the extra 2.5 million tonnes a year that industry analysts say is required to meet rising global demand. The slower growth is partly attributed to lower palm estate expansion to between 200,000 and 300,0000 hectares per year as the ban was debated over the past year or so, versus 500,000 hectares in 2008.

Strong demand and supply constraints for palm oil have supported benchmark palm oil futures , which are expected to hit a record average of 3,300 ringgit ($1,095) per tonne this year after heavy rains cut output.

Workers unload oil palm fruits from a truck at a palm oil factory in Sepang outside Kuala Lumpur March 9, 2011. REUTERS/Bazuki Muhammad

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That would be nearly 16 percent above the previous record average in 2008.

The price hit a 2011 high of 3,967 ringgit in February. The average for the year to date stands at 3,498 ringgit.

CONCESSIONS

To get the ban approved, Jakarta made concessions to the $30 billion global palm oil industry and other key sectors to exempt permits already granted in principle by the forestry ministry.

Planters say this preserves the bulk of their land banks. Major listed planters operating in Indonesia are expected to plant around 10,000 hectares on average per company annually.

At that rate, even the companies with the smallest land banks will take two years to run them down.

Companies with the largest land banks have enough to last 30 years without running out of reserves, Reuters calculations on company data show."I don't think (the moratorium) for us makes any difference because we have quite a lot of land bank," said Sebastian Sharp, head of investor relations at Jakarta-listed BW Plantation .

"Our land bank is about 98,000 hectares. It all has permits." The country's top planter, Singapore-listed Golden Agri Resources , for example, holds 442,500 hectares of planted land.

A third of that holds immature oil palms that will reach their peak output phase in one to seven years.

BIGGER THAN THE MORATORIUM

Palm oil firms in Indonesia are struggling to meet their planting targets after torrential rains last year stalled work.

They are also struggling to find the around 2,000 workers needed to plant and maintain land blocks of 10,000 hectares a year.

"Land with permits is available, but getting reliable labour to do the most effective planting is a bigger issue than the moratorium," said an official with listed Malaysian planter owning permits to develop land in Kalimantan.

There is a limited pool of specialised labour available for plantation work, and a skilled workforce is even more important to planters working toward boosting yields.

It can take years to train people to work on palm oil plantations and Indonesian and Malaysian platers are vying for the available workforce.Such constraints could spell an opportunity for cash-rich planters able to spend on mechanising the harvest now mostly done by hand and developing better planting materials. But it will take time for that kind of investment to show rewards.

"Raising yields is easier said than done," said leading industry analyst Dorab Mistry, head of trading for Godrej International. "It will take 10 years for significant quantum leap in yields and that is not a promise the world can rely on."

Reference Price	Palm fruits	Palm kernel	Crude palm oil pct change	Crude palm kernel oil	RBD palm olein
$750 & below	40	40	0	0	0
$750-$800	40	40	7.5	7.5	2
$800-$850	40	40	9	9	3
$850-$900	40	40	10.5	10.5	4
$900-$950	40	40	12	12	5
$950-$1,000	40	40	13.5	13.5	6
$1,000-$1,050	40	40	15	15	7
$1,050-$1,100	40	40	16.5	16.5	8
$1,100-$1,150	40	40	18	18	9
$1,150-$1,200	40	40	19.5	19.5	10
$1,200-$1,250	40	40	21	21	11.5
$1,250 & above	40	40	22.5	22.5	13

Reference Price	RBD palm oil	RBD palm stearin	RBD palm kernel oil pct change	Palm fatty acid distillate	Biodiesel
$750 & below	0	0	0	0	0
$750-$800	0	0	0	3	0
$800-$850	0	0	0	4	0
$850-$900	2	2	2	5	0
$900-$950	3	3	3	6	0
$950-$1,000	4	4	4	7	2
$1,000-$1,050	5	5	5	8	2
$1,050-$1,100	6	6	6	9	2
$1,100-$1,150	7	7	7	10.5	2
$1,150-$1,200	8	8	8	12	5
$1,200-$1,250	9	9	9	13.5	5
$1,250 & above	10	10	10	15	7.5

Palm oil, growth and Indonesia's forest clearing ban

KUALA LUMPUR, May 25 (Reuters)

Indonesia, the world's No.1 palm oil producer, signed into law a two-year freeze on new permits converting forests in plantations that may prompt palm oil firms to seek new ways to grow supply to meet rising demand from India and China.

For a related analysis on how Southeast Asian planters will first tap into their existing land banks in Following are questions and answers on how the $30 billion dollar palm oil industry will deal with the ban:

IS LAND STILL AVAILABLE IN INDONESIA WITH THE BAN IN PLACE?

Yes, there is plenty of degraded and secondary forest in Indonesia. But since there is no fixed definition for degraded land, estimates range widely from six million to 76 million hectares, making it hard to pinpoint land availability.

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Palm investors could be burnt by fretting over La Nina

By Michael Taylor and Niluksi Koswanage

NUSA DUA, Indonesia Dec 6 (Reuters)

Malaysian palm oil prices have risen too far too fast and a dramatic fall awaits as traders focus on expectations of stellar output after the first quarter of 2012, while milder than expected La Nina weather promises fewer disruptions than usual.

Malaysian palm futures jumped almost 20 percent over the two months to early November as markets quickly priced in a weather premium over fears that yields could be hurt by the arrival of a La Nina as Southeast Asian producers enter the monsoon season in the fourth quarter.

But weak yields from rains and floods over the next two or three months will be buffered by palm stocks of well over two million tonnes in second-largest producer Malaysia at the start of the fourth quarter, thanks to six months of high output.

"The market seems to reacting too much and I would have thought they would have intelligently discounted the monsoon rains and even La Nina, given the supply picture is not bad," said James Fry, chairman of commodities consultancy LMC International.

"Last year till the start of early this year, production was very low and we are going to see output growth this time around. There is also the factor of more plantations in Indonesia coming to maturity. I guess it can be easy to forget about this."

Cash markets see heavy rains continuing into next year and triggering floods that complicate production and processing with refined, bleached and deodorised palm olein (RBD) cargoes for Jan-March priced $40 a tonne higher than April-June.

WEATHER NOT EXCESSIVE

A Reuters survey of nine Southeast Asian planters, who have a total of 1.8 million hectares under palm cultivation, shows this may not be the case. The La Nina episode and the monsoon rains are not excessive for the beginning of the season, say survey respondents from Malaysia and largest palm producer Indonesia.

"I've been hearing from our field guys that it has started to rain this year, with no flooding yet, just showers," said Michael Kesuma, head of investor relations at Jakarta-listed palm oil producer Sampoerna Agro .

At its worst, the La Nina could trim Malaysian palm oil output by 15 percent each month from November to January, some of the Malaysian planters said.

Even so, three successive drops of 15 percent each month to January 2012 will only reduce output to 1.17 million tonnes from October's production of 1.91 million tonnes, which was a two-year high, Reuters calculations show.

That compares with 1.06 million tonnes last January when a moderately strong La Nina hit Southeast Asia and lifted palm oil prices to their highest in three years in February as floods disrupted the supply chain in Malaysia.

"The weather issue has been taken out of hand in the markets. But there are many traders now who are going to go short in this market because prices have gone up too fast," said a Malaysian trader with a commodities brokerage in Kuala Lumpur.

NOT GOING TO BE SO BAD?

The most recent episode of the La Nina weather phenomenon extends to more than two years a string of erratic weather events that began with El Nino-induced drought in mid-2009.

The heavier-than-usual rains in Southeast Asia it brings generally slash harvesting rounds in estates and the oil palm fruits' prolonged exposure to moisture hurts yields, forcing sellers to offer the edible oil at a discount.

However, some industry players believe supply may not be affected after the World Meterological Organization (WMO) said it was unlikely the current la Nina episode would be as strong as the 2010-2011 episode that ended in May.

"We predict that weather conditions in 2011-2012 will be more conducive for palm oil plantations than the previous year," said Nurhayati, head of the climate section at Indonesia's weather office.

"We don't see any bad impact of weather conditions on palm oil production."

Production tends to rebound strongly in double-digit percentage points after the monsoon and a seasonally lower first quarter as heavy rains, especially in the evening, tend to spur pollination in oil palm trees.

The concern over erratic weather hurting yields and an unsustainable rise in prices has partly been driven by Malaysian production data of slowing growth, due partly to limited acreage and ageing trees.

But the reality is Indonesian production has been growing as more acreage comes to maturity, helping to offset any slowing growth in its competitor.

Nevertheless, the latest government estimates show Indonesia has planted oil palms on 8.3 million hectares across the archipelago, which will produce 23 million tonnes this year, the industry expects. This compares with government and industry estimates of 18 million to 19 million tonnes for Malaysia this year.

Analysts do not think world production will suffer, however.

"There is no serious weather threat to production across the globe," said Emily French, managing director of U.S.-based agriculture consultancy Consiliagra.

"Palm oil production is on the decline for now but there just isn't a supply shock or a weather threat. I need something bigger than that to get worried."

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Lull before the storm for India's cooking oil refiners?

By Ratnajyoti Dutta and Michael Taylor

NEW DELHI/JAKARTA, Dec 2 (Reuters) -

Strong global demand for palm oil appears to have won India's refiners a temporary reprieve from a potentially devastating deluge of cheap Indonesian cooking oil, but imports of products could double from 2013 as extra supplies hit the market.

Indonesia altered taxes on exports to make its refined palm oils more attractive than crude palm oil (CPO) from October, prompting warnings from refiners in India, the world's top cooking oil buyer, that they would be dealt a "death blow."

But the expected influx of refined palm oil hasn't materialised because supplies remained tight: demand from the European Union, the Middle East and Asia, as well as an inability to boost refining capacities quickly, kept prices of Indonesia's refined palm oils high, despite the tax cut.

In October, the spread between refined and crude oils remained almost unchanged at about $63 a tonne. India's refined palm oil imports were down 16 percent on the month, and crude palm oil purchases were also 11 percent lower.

"High demand from traditional buyers and limited refining capability in Indonesia have restricted refined oil imports," said Prasoon Mathur, a senior analyst with Delhi-based Religare Commodities.

But traders expect the situation to change in the marketing year to October 2013, when more Indonesian palm oil refiners come onstream. Some analysts are also predicting bad weather, which would limit crude supplies.

INDIA'S APPETITE SEEN INCREASING

India's appetite for cooking oil is also likely to increase, and despite pleas for help from the refining industry, the government is unlikely to take steps that would affect prices of a key foodstuff when inflation is running at double digits.

If the Indian government boosts import taxes, it protects domestic refiners but risks raising inflation. If it doesn't do anything, domestic refiners will suffer at the expense of keeping food prices lower.

"The changes in export taxes by Indonesia will hit Indian refiners in the long run and the signs will be visible from the middle of next year with an increase in refined palm olein imports," said Govindbhai G. Patel, managing partner of Dipak Enterprise, based in the western city of Rajkot.

The new tax structure would make it more profitable for Indonesian firms to export refined palm oil than the crude grade.

Crude palm oil futures could hit 4,000 ringgit per tonne by mid-2012 from around 3,050 ringgit now on erratic weather in palm-growing regions and strong demand, according to Dorab Mistry, a London-based industry analyst.

Refined palm oil volumes could increase as much as 16 percent in 2012, the Indonesian Palm Oil Board says. Its vice-chairman, Derom Bangun, told Reuters the increase could come even sooner, as some refineries were not using their full capacity.

Delhi-based analyst Mathur expects Indonesia's refining capacity to treble after 2013. Traders say refiners could increase their output by an additional four million tonnes at least that year as firms seek to cash in on the tax benefits.

New refineries take about 18 months to become operational and Indonesia now has about 6 million tonnes of refining capacity.

India imports almost all its palm oil needs and CPO now accounts for about 83 percent of purchases. Traders expect imports of refined palm oil to rise by 50 percent in 2012/2013, which could double to 3.2 million tonnes in 2013/2014.

FIGHTING BACK?

India has a palm oil refining capacity of about 6.5 million tonnes and some traders, such as Sandeep Bajoria, chief executive of Mumbai-based trading firm Sunvin Group, warned this figure could be halved if the government does nothing to stop the cheaper Indonesian palm olein imports.

Food Minister K.V. Thomas asked Indonesia to consider cutting the crude palm oil export tax a month ago during bilateral talks, but so far in vain.

Indian refiners have urged the government to double import duties on refined oil. Thomas has told the finance and commerce ministries about the need to protect domestic refiners, but so far, the issue has been eclipsed by the Congress-led coalition government's other political woes.

Edible oil imports are often cited as one of the factors boosting food inflation, and some officials say the government could decide to take steps to cut the volume it buys abroad in February's federal budget.

Indonesia is also under pressure to revisit its new tax structure after complaints from competitor Malaysia, the world's second-largest palm oil producer, and the Dutch government and industry.

But if nothing changes, India's refiners may face a dark future.

"The scenario is still not bleak ... but as Indonesia's future refining game plan unfurls, the death blow might be felt by the Indian refining industry, maybe next year," said Pradip Desai, managing director of Mumbai-based Palmtrade Services.

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(Special PDF Report on Palm oil industry prepares for a rocky 2012 is compiled by **Akanksha Mohanty** in Bangalore)

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