

Commodity Market Intelligence Update No. 9

State of Palm Oil Markets: Indonesia's Exports and Consumption

In 2020, a year marked by volatility across agricultural markets, exports of palm oil from Indonesia, the world's largest producing country, fell across all major palm oil types (Figure 1). A large decline in Indonesia's processed palm oil exports to China saw the E.U. become tied with China as Indonesia's second largest export market behind India (Figure 2). Despite declines in Indonesia's palm oil exports in 2020, which are expected to resume growth this year, Indonesia's domestic consumption continued to grow (Figure 3), and the country will remain the world's largest palm oil consuming market in 2021 (see next page).

Figure 1: Indonesia's Exports of Palm Oil by Type in 2020
Million Metric Tonnes and Percent Change from 2019

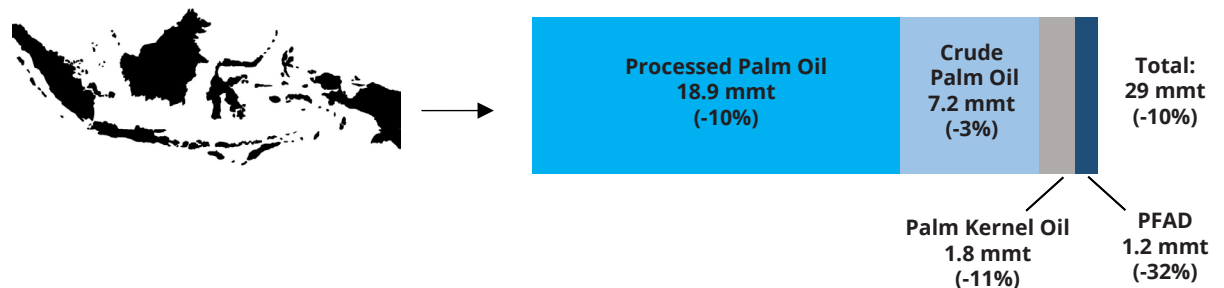


Figure 2: Largest Export Markets for Indonesian Palm Oil in 2020
Million Metric Tonnes and Percent Change from 2019

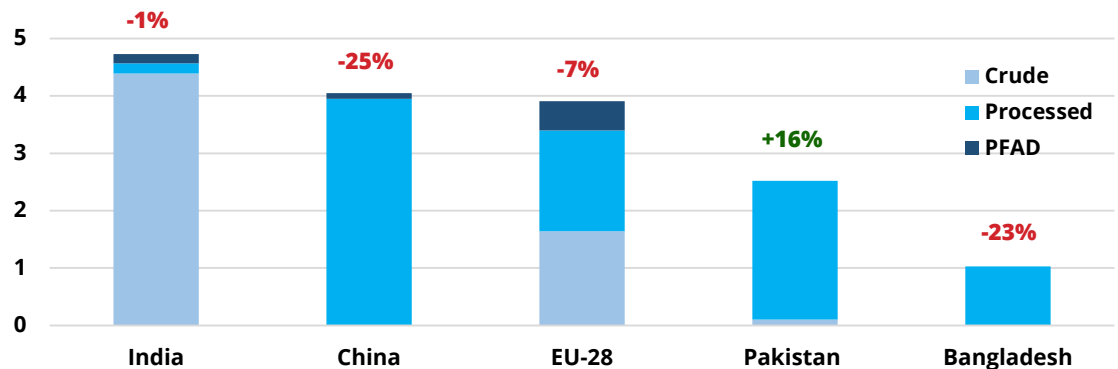
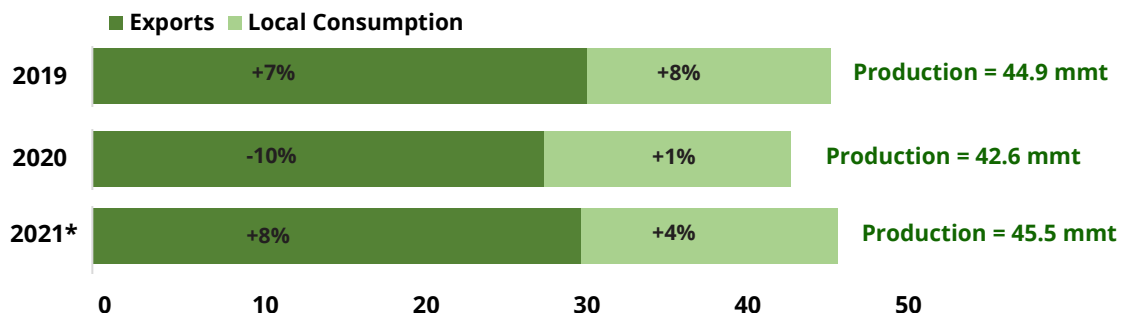


Figure 3: Indonesia's Production of Palm Oil, 2019-2021
Million Metric Tonnes and Percent Change from Previous Year



Source: Oil World and author's calculations. *Indonesia's 2021 palm oil exports and local consumption forecast based on available data. Note: Figures 1 and 2 based on January to December marketing year, Figure 3 based on October to September marketing year. PFAD is palm fatty acid distillate. Indonesia's exports of palm kernel oil by destination not available.

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Palm Oil Consumption in Asia

Though disruptions from the COVID-19 pandemic caused global consumption of palm oil to decline in 2020, Asia continues to be world's largest palm oil consuming region. With a combined population of over 3 billion, Indonesia, [China](#), and [India](#) accounted for 35% of global palm oil consumption in 2020, primarily for major palm oil-consuming sectors poised for further growth like biodiesel, cooking oil, and processed food (Figures 4-6). Estimates of the uptake of RSPO certified sustainable palm oil in these markets range from 1-6%, highlighting the need for continued [engagement](#) with both local and international companies serving Asia's consumers.

Figure 4: Consumption of Palm Oil in Indonesia

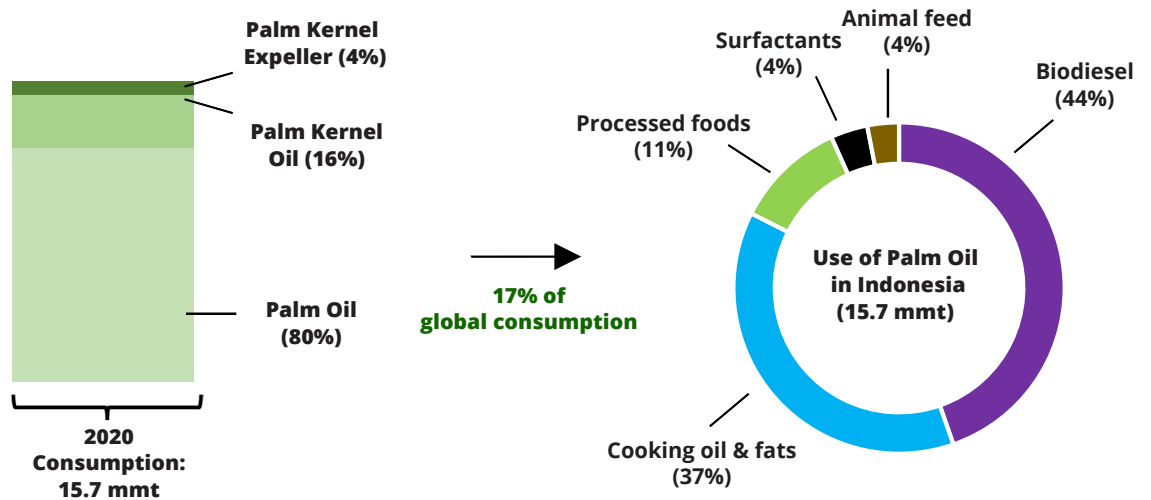


Figure 5: Consumption of Palm Oil in China

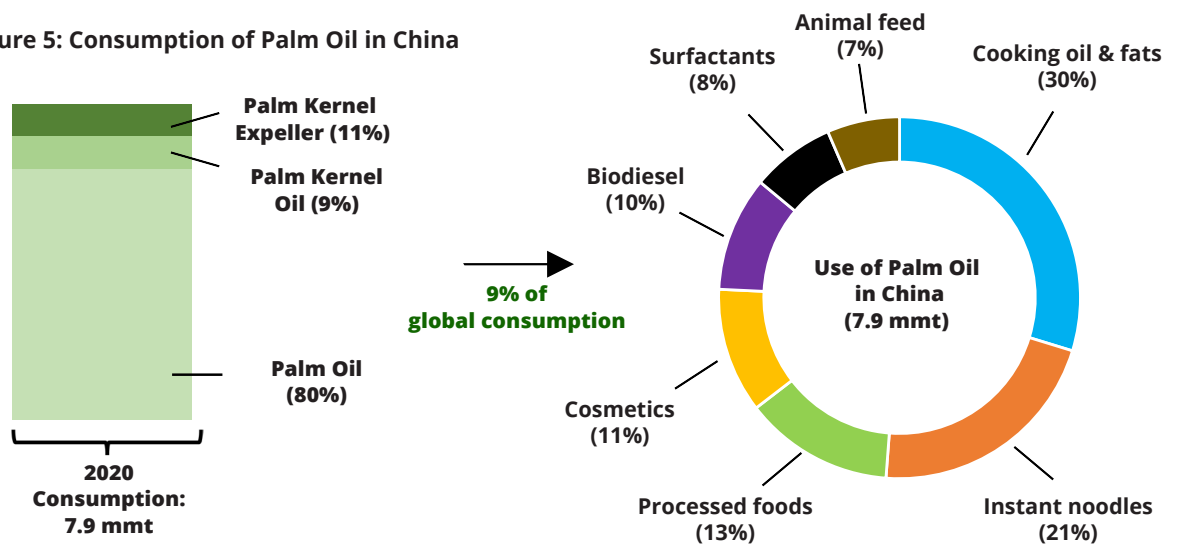
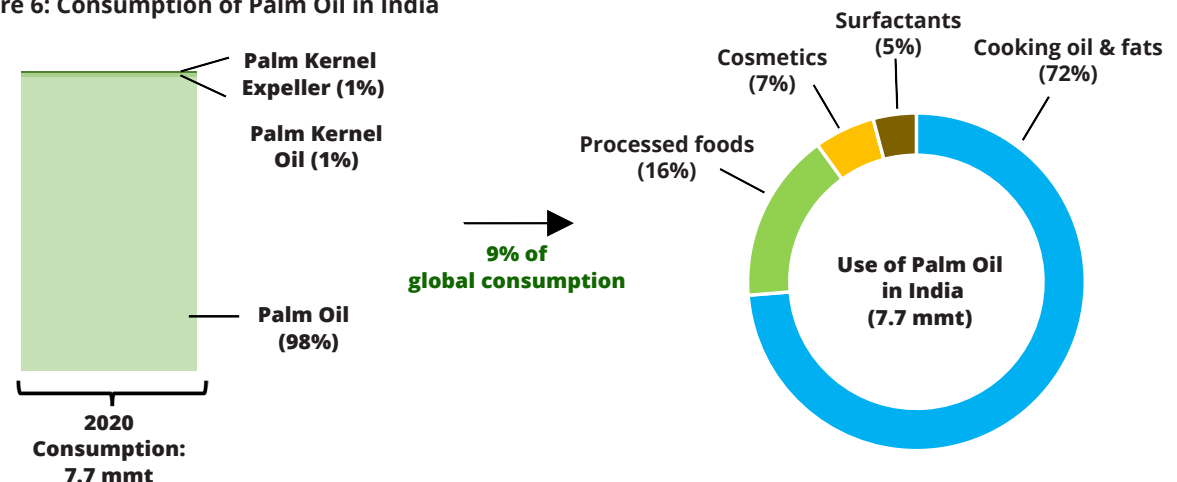


Figure 6: Consumption of Palm Oil in India



Source: USDA, Oil World, Segi Enam Advisors, and author's calculations. Note: "Palm Oil" includes both crude and processed palm oil. India consumption does not include domestically produced palm oil. "Cooking oil & fats" includes use in households, hotels, restaurants, and catering.

Bolivia's Agricultural Frontier

Rising demand for soy and beef, major drivers of tropical habitat conversion, have allowed cattle ranching and soy farming to penetrate some of Latin America's most vulnerable ecosystems, including the Cerrado and Gran Chaco. While sustainable supply chain efforts have tended to focus on agricultural powerhouses like Brazil and Argentina, Bolivia, a growing food producer which shares portions of the Amazon and Chaco biomes, recorded its [highest rate](#) of forest loss in 2019 (with 2020 data still to come). However, the risk of agricultural-driven habitat conversion in Bolivia remains largely under the radar as [new hotspots](#) of ecosystem loss emerge across Latin America.

Large-scale grain production in Bolivia, including soy, has [contributed](#) to deforestation in frontier areas of [Santa Cruz](#) department, Bolivia's [agricultural center](#). Though Bolivia ranks as the world's tenth largest soy producing country, it is a growing supplier of valuable products like soymeal and soy oil within Latin America (Figures 7 and 8), which are used in foods and in animal feeds for products that may be re-exported to global buyers. Over 80% of Bolivia's soymeal is exported to Peru, Ecuador, and Colombia, raising the risk that unmonitored deforestation and habitat conversion is entering the supply chains of major feed manufacturers, food companies, and retailers whose sustainability efforts may not be focusing as strongly on these countries.

Figure 7: Bolivia's Soy Production
Million Metric Tonnes

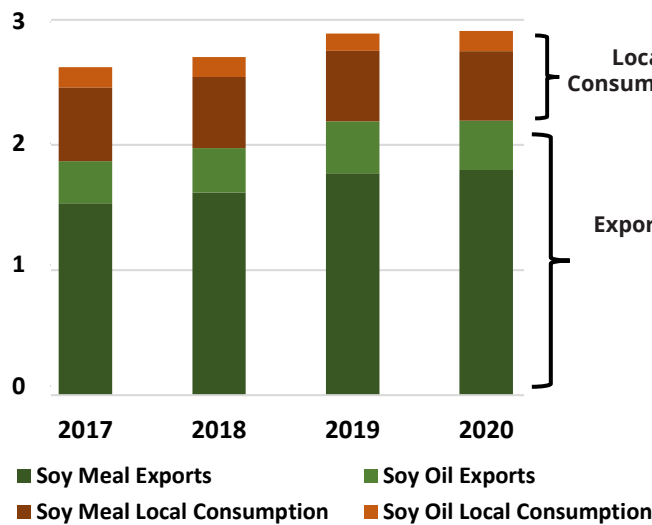
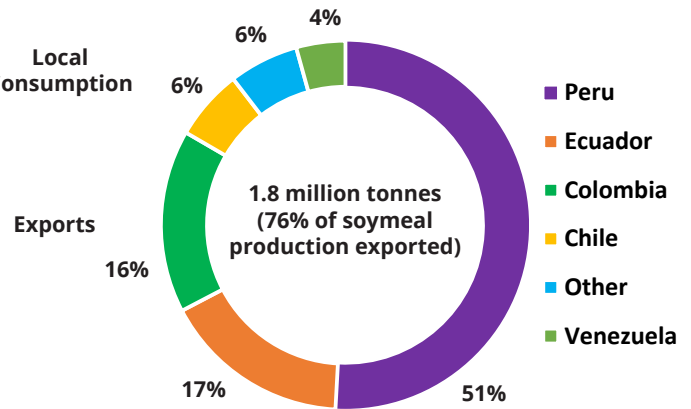


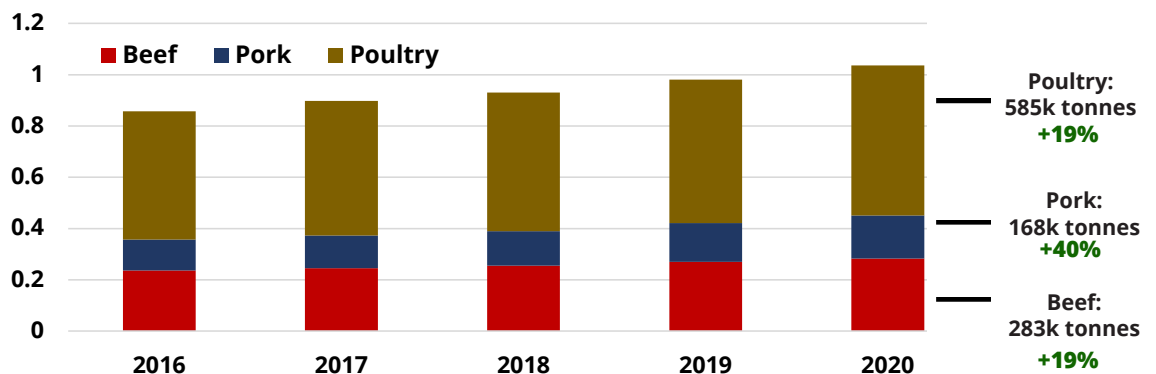
Figure 8: Bolivia's Soymeal Exports by Destination in 2020



Source: Oilworld and author's calculations.

Bolivia is also a growing producer of beef, pork, and poultry, which in 2020 surpassed a combined 1 million tonnes for the first time (Figure 9). While Bolivia's production of beef is smaller than poultry, cattle ranching has been the [primary driver](#) of conversion of deciduous forests in the country's [Chiquitania](#) region. Though over [80%](#) of Bolivia's beef exports have gone to Peru in past years, China, the world's largest beef importing country, [gained market access](#) to Bolivia in 2019, presenting an opportunity to dramatically increase Bolivia's beef exports. With China's pledge to become [carbon neutral](#) and corporate commitments to deforestation-free supply chains proliferating, companies sourcing beef and soy must ensure progress made toward sustainable sourcing in major producing countries like Brazil, Argentina, and Paraguay does not accelerate the loss of natural habitats in Bolivia and elsewhere.

Figure 9: Bolivia's Production of Meat
Million Metric Tonnes and Percent Growth Since 2016



Source: Oilworld and author's calculations. Note: Bolivia produced 3 million tonnes of soybeans from 1.3 million hectares of land in the 2019/2020 season.

Key Company Updates

Global food and beverage company **PepsiCo** has ended its joint venture with Indonesian food company Indofood, transferring its 49% stake in Indofood Fritolay Makmur PT to Indofood for \$35 million. The joint venture, which was established in 1990, sourced palm oil for the manufacturing of PepsiCo-brand snack products in Indonesia, and the transfer will cease the production and sale of PepsiCo-brand snack products in the country. PepsiCo's extension of its [palm oil policy](#) in February 2020 to cover subsidiaries, joint ventures, and third-party suppliers may have prompted the termination of its joint venture with Indofood. PepsiCo initially [suspended](#) procurement of palm oil for the joint venture from IndoAgri, an Indofood subsidiary, in January 2017 following concerns over labor violations, and Indofood subsequently [withdrew](#) from the Roundtable on Sustainable Palm Oil in February 2019. With [356,000 hectares](#) of land managed by IndoAgri in Indonesia, Indofood continues to be an important supplier of palm oil both globally and within Indonesia's domestic market, including for the [Indomie](#) instant noodle brand.

Brazilian agricultural producer **SLC Agrícola** has won regulatory approval to acquire rival producer Terra Santa Agro. [SLC Agrícola](#) is one of Brazil's largest farmland owners and producers of soybeans, directly operating [17 farms](#) across Brazil covering at least 500,000 hectares of land, most of which is in the Cerrado biome. Terra Santa Agro is a producer of soybeans, corn, and cotton and [manages](#) 133,000 hectares of land, primarily in the state of Mato Grosso, and has [not](#) committed to stopping the conversion of native vegetation in its operations. Though SLC Agrícola has [committed](#) to ending the conversion of native vegetation in the Cerrado by the end of 2020, the company has been criticized for pushing ahead with [clearing land](#) in Bahia state during the final months of 2020. [SLC Agrícola](#) and [Terra Santa Agro's](#) primary customers include major commodity traders Cargill, ADM, Bunge, and Amaggi, raising the risk that soy produced on recently cleared land is entering their supply chains.

Palm oil processor and trader **Wilmar** has fully [acquired](#) chemical manufacturer Global Eco Chemical Ltd from Japanese consumer goods company Lion Corporation. Global Eco Chemical, which previously operated as a 50:50 joint venture between Wilmar and Lion Corporation, manufactures surfactants and oleochemicals, which often contain palm oil, and has facilities in Johor, Malaysia, and North Sumatra, Indonesia. While Lion Corporation expected to use 100% RSPO-certified palm oil for its products by 2020, only 15% of its [28,000 tonnes](#) of palm oil derivatives sourced annually were certified as of last reporting (2019 ACOP). It is unclear if Wilmar, whose [policies](#) include a commitment to 100% deforestation-free palm oil and a No Deforestation, Peat, or Exploitation (NDPE) policy covering its global operations, including joint ventures, will maintain Lion Corporation's commitment to using 100% RSPO-certified palm oil for Global Eco Chemical's products.

Cargill will divest from its sugar trading joint venture, [Alvean Sugar SL](#), which it has operated with Brazilian sugar producer [Copersucar](#) since [2014](#). Brazil is the world's largest sugar producing country, and Alvean traded [one third](#) of Brazil's sugar exports in 2020; the company also originates, processes, and trades raw and white sugar from Thailand, India, Australia, and Central America. Copersucar, which will become the sole owner of Alvean, is a major player in Brazil's biofuel industry, which consumes around 4 million tonnes of soybean oil per year, in addition to sugarcane. Though sugarcane has been less of a driver of conversion of natural ecosystems in Brazil than beef and soy, rising demand for ethanol in Brazil could lead the country's sugarcane area to expand by as much as [5 million hectares](#) by 2030, 60% more than the current area of land used.

Global commodity trader **COFCO** [plans to merge](#) its international trading business (COFCO International) with several of its China-based units to create a new, publicly traded company as early as late 2021. COFCO, which primarily operates as a government-owned enterprise, [processes and trades](#) sugar, cotton, coffee, and [palm oil](#), and is one of the [largest exporters](#) of Brazilian soy. COFCO plays a central role in supplying food ingredients to China, the world's largest consumer of food commodities like soy and pork, and the business combination may allow COFCO to more efficiently connect its animal feed and oilseed processing facilities in China with its international trading business. China has set [self-sufficiency](#) targets for animal proteins like pork, milk, and eggs, which will continue to require large volumes of imported feed ingredients like soy, corn, and wheat.