

ANALYSIS OF THE OIL PALM SECTOR IN COLOMBIA

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WORLD ECONOMIC CONTEXT 2018

2018 was a year with high volatility in international markets. The trade war between the United States and China, the possible economic slowdown, the Brexit and geopolitical tension create unknowns about the future of the global economy. The IMF estimates that the world economy will slow down to 3.2% in 2018. In the same direction, Europe presented a moderate economic slowdown with an estimated growth of 2.0% for 2018. Among EU Member States, the biggest economies are Germany; the United Kingdom; France; Italy and Spain. Asian economy grew 5,3% with China 6.6% during 2018. The United States grew 2.9% (Andi, 2019).

Latin-American and the Caribbean also shows an economic decrease with an estimated growth of 1,2% at the end of 2018.

Beginning the year, the reference WTI (West Texas Intermediate) started at US \$ 60.31 per barrel, going through its highest peak of US \$ 77.41 and plummeting to US \$ 49.88 at the end of the year but with an upward trend. For Brent reference had a similar behavior. The drop in oil prices created concerns among the member countries of the Organization of Petroleum Exporting Countries - OPEC and in Colombia as well.

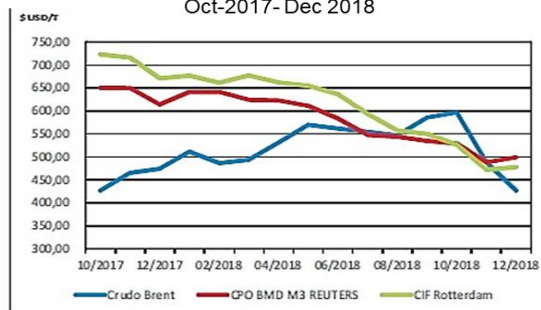
COLOMBIAN ECONOMY DURING 2018

2018 was a year of recovery for the Colombian economy, since the performance was positive in most economic activities with growth of around 3%. Some indicators that reflect stability such as one-digit unemployment rate and an inflation of 3.18%. Despite this, the perception of the country is better from the outside, than the internal one (Dane, 2018). With a stable macroeconomic environment and an increase in direct foreign oil and non-oil investment, Colombia continues to be a benchmark in economic terms with respect to the region (Andi, 2019)

PALM OIL SECTOR WORLDWIDE

At the end of December 2018, Malaysian palm oil inventories reached a level of 3 million tons, the highest of last 19 years. Due to this, the price of the CPO maintained a downward trend as evidenced in Figure 1, with a slight recovery in the last months of the year.

Figura 1: Palm oil prices
Oct-2017- Dec 2018



Source: Fedepalma 2018

However, analysts point out that palm oil prices in Southeast Asia have increased slightly at the end of the year, due to the aging of plantations, the lack of labor and the lower application of fertilizers by farmers. Additionally, India's palm oil imports fell 41% compared to the previous year, due to protectionist policies that raised import taxes. (Fedepalma, 2018)

PALM OIL SECTOR IN COLOMBIA

Crude Palm Oil production has a slight increase of 1% compared to 2017, reaching a total volume of 1.63 million tons. By region, the eastern zone fell by 7.4% producing 670.600 tons due to the climatic conditions of the area. Meanwhile the southwestern region grew 13%, adding 38.200 tons to the national production. Northern zone with 7.3% more than previous year, reached 421.800 tons. Central zone with a growth of 4.8% produced 499.100 tons (Fedepalma, 2018b).

**Figure 2 Palm oil Production by zone
Jan - Dec 18 thousand tons**



Source: Fedepalma, 2018

The internal consumption of palm oil decreased during 2018 with respect to the

previous year by 4%, from 807.000 to 771.000 tons. Biodiesel market is the largest buyer of palm oil in the local market with a share of 45.87% of the total consumption. Animal food represent only 31.000 tons and the balance is for the food market

Exports in turn, grew 5% going from 803.000 to 841.000 tons. (Fedepalma, 2018b).

In terms of sustainability, at the end of 2018, eleven Colombian palm companies, representing around 14% of the palm oil produced in the country, had RSPO certification and another 23 palm companies have made significant progress (Mesa, 2018). In addition, there are three companies with the Rainforest Alliance Certified seal and another thirteen with a Sustainability Certificate from the ISCC. (iscc, 2019)

2019 Perspectives

For the first quarters of 2019, palm oil prices will continue to recover closing the gap with other vegetable oils, this is due to the lower growth dynamics of palm oil production mainly in Indonesia and also to the increase mandatory blend in October 2018 to B20, Because of the Biodiesel blend the use of palm oil is expected to increase to 6 million tons.

2019 also brings great uncertainty due to the European Commission position on banning palm oil as raw material for biodiesel.



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Oil prices will go through a period of greater volatility during the first half of 2019 due to concerns about Venezuela crisis and Iran supplies, as the United States imposed sanctions on those two countries.

By 2019, global export supplies of soybean oil will be relatively limited, due to the new approved program to increase the biodiesel mixture in Brazil, the second largest exporter country of soybeans.



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