Palm oil: an industry worth billions

The proliferation of products labelled "palm oil-free" in European supermarket aisles could make it seem that demand is declining. But that's far from being the case. With more than 76 million tonnes produced this year – compared to less than 9 million in 1980 – palm oil is by far the most consumed vegetable oil on the planet. And that's not going to change any time soon.

According to estimates, global demand is expected to reach anywhere from 264 to 447 million tonnes in 2050, an increase of between 250% and 500% compared to 2019.

"Consumption of fat increases significantly as soon as a population is no longer in a precarious state and has a bit more comfort and food security," says Alain Rival, regional director of the French Agricultural Research Centre for International Development (CIRAD), in Indonesia. "That's why palm oil consumption will continue to grow. It's inevitable. It's driven by population growth and an increasing middle class."

Claude Garcia, leader of the Forest Management and Development group at ETHZ, researcher at CIRAD and co-head of the Oil Palm Adaptive Landscape (OPAL) programme, agrees. "Palm oil production shows no signs of slowing down. Consumption is driven by countries of the global south: but even in Europe, the numbers aren't decreasing."
Palm oil can be found in many products used in everyday life: cosmetics, toothpaste, shower gel, shampoo, deodorant, detergent and certain medicines, not to mention agrofuels (see inset on p. 26). The list is long. But it’s in food products that palm oil is used most frequently – 80% of palm oil production is consumed as cooking oil or in processed foods.

Why do we find it on our plates so often? Palm oil is significantly cheaper than its other oil competitors – soy, sunflower, rapeseed, olive and others – and it has physicochemical properties that give it the consistency of a “vegetable butter.” “Palm oil has a lot going for it,” says Rival. “It is abundant and cheap, can be stored for a long time, can withstand heat and remains solid at room temperature in warm climates. For the agrofuel industry, palm oil is the ideal product to make products that melt in your mouth.” Nutella, for example, owes its legendary rich texture to the palm oil used in the recipe.

It’s almost easy to forget that consuming palm oil in excess is bad for your health – it’s extremely rich in saturated fats, which lead to bad cholesterol. It’s a danger that is particularly real in “rich” countries, where palm oil is mainly found in processed foods.

And Sime Darby, which supplies palm oil to Ferrero, isn’t the only giant that relies under the radar of western investors. Other little-known giants include Singaporean companies Golden Agri and Wilmar, Indonesia’s Indofood, as well as Malaysian group Kepang. In total, the SPOTY (Sustainable Policy Transparency Toolkit) platform, which ranks producers based on their environmental impact, identifies approximately 100 palm oil producers, about 40 of which are publicly listed (read company profiles on p. 27).

It is clear that the growth outlooks for the palm oil market are attractive to analysts. For example, most recommend purchasing shares in Sime Darby. But the industry could suffer due to the environmental harm it
In Indonesia, a villager passes a burning field in 2006. Land clearing by burning causes problems as far as neighbouring Malaysia due to forest fires.

Investors Have a Role to Play

Will not eating Nutella influence the industry? Alain Rival, who has lived in Jakarta for several years, doesn't think so at all. "The European Union accounts for only 10% of global imports," says the author of La palme des controverses. "In other words, if countries in the global north stopped buying palm oil, the market would continue. Most of the palm oil produced globally is for countries in the global south which will continue to consume it, as it is a blessing for their middle classes. And it will probably take a new generation of consumers for India, China or Pakistan, which account for 60% of global imports, to commit to sustainable production criteria. If countries of the global north stop consuming palm oil, plantations will just keep growing with no safeguards in place. So these countries must remain stakeholders to force the industry to become more sustainable."

Even worse: "A boycott could have harmful consequences that are the very opposite of what protesters hope would happen," warns Claude Garcia. If palm oil was banned, it would have to be replaced by another fat. But other oil crops, such as rapeseed, sunflower and soy, "require up to nine times as much land to produce as palm oil," according to the IUCN. One hectare of a palm plantation produces an average of 3.8 tonnes of oil, compared to just 0.8 tonnes for rapeseed. In other words, replacing oil palm with other crops could lead to even more catastrophic deforestation, which is why major NGOs such as Greenpeace and WWF do not recommend a boycott.

"When you consider the disastrous impacts of palm oil I...there are no simple solutions. Half of the world's population uses palm oil in food, and if we ban it or boycott it, more land-hungry oil will likely take its place," said Inger Andersen, director of IUCN, in a report on the subject: "Palm oil is here to stay. But so are the producers."

Given that fact, consumers and investors can indeed have an impact by choosing the most sustainable palm oils possible. Established in 2004, the RSPO (Roundtable on Sustainable Palm Oil) label - the largest in the sector - was created, aiming to preserve resources and biodiversity. Currently, 1% of global production, about 1.65 million tonnes, is RSPO-certified. But for Greenpeace, this certification is "not sufficient", because "it does not guarantee that deforestation is not happening".

Sound Alarming Bells on Agrofuels

More than half of the seven tonnes of palm oil imported each year by the European Union ends up in pet food tanks. NGOs do not like this at all, not only - correctly - believe that these agrofuels are not biofuels. Faced with public outcry and after months of prevarication, Brussels finally decided in February 2019 to envisage palm oil-based fuels as "not sustainable". As a result, consumption of these fuels can no longer increase and must in fact decrease from 2023 to reach zero in 2030. This is a disappointment for some, particularly Total, which opened a refinery - one of the largest in Europe specialising in palm oil fuel - in La Méde, France, in July. Globally, the fuel industry is responsible for 6% of palm oil production; 10% of demand comes from industry (cosmetics, detergent, etc.) and 80% is used in food.

The Agri-business Conglomerate

With nearly 230,000 hectares of farmland, Wilmar International is one of the largest palm oil producers in the world. In 2018, the Singaporean company, which is also active in the sugar and grains industry, generated $44.5 billion in revenue. Most analysts recommend keeping shares.

Golden Agri-Resources

The number 2 in palm oil.

With revenue exceeding $7 billion in 2018, more than 500,000 hectares of farmland and over 170,000 employees, Golden Agri-Resources is one of the world's palm oil behemoths. The Indonesian company, which generates 99% of its revenue from palm oil, is one of the suppliers to Nestlé.
The RSPC certification is flawed, but at least it exists and has a ripple effect on the entire industry. Indonesia and Malaysia, which are two of the biggest global producers, have since developed their own labels (RSPO and RSPC), which are based on RSPC, says Rival. "Moreover, western companies have understood that they cannot purchase palm oil from questionable companies."

Replacing oil palms with other crops could lead to even more catastrophic deforestation

Since 2015, 100% of palm oil used by the Nutella manufacturer is RSPO-certified. And Ferrero is going even further, setting a goal of zero deforestation. As of 2018, Coop only uses palm oil that is compliant with Bio Suisse standards. According to the company, only three producers in the world have this certification: one in Brazil, one in Colombia and one in Madagascar.

"Faced with increasing backlash, manufacturers from Switzerland and the west have become very careful in choosing their suppliers," says Garcia. "They want to avoid bad buzz at all costs." In 2018, for example, an investigation by Greenpeace caused a commotion when it revealed that 12 big brands, including Kit Kat biscuits (Nestlé), Colgate toothpaste (Colgate-Palmolive), Dove soaps (Unilever), Doritos chips (PepsiCo), M&M's sweets (Mars) and Head & Shoulders shampoo (Procter & Gamble) were using shady palm oil suppliers. Following these revelations, the Swiss agrifood giant — which uses palm oil in its Kit Kat chocolate bars, but also its Maggi instant noodles and Coffee-Mate coffee creamer — suspended 10 of its palm oil suppliers.

And that was just the beginning. For the past several years, NGOs have accused Indofood Agri Resources — the Indonesian supplier for PepsiCo and Nestlé — of paying illegally low salaries, participating in deforestation and stealing land from local communities. Following a petition, the company lost its RSPO certification in February 2019, which led Nestlé and PepsiCo to end their partnership with Indofood in summer 2019.

In order to avoid similar developments, Nestlé began using Starling satellite technology in early 2019. Developed by Airbus, Starling can monitor land from space to ensure that Nestlé’s sub-contractors are not involved in deforestation. But it’s difficult to control social conditions from such a distance. In September 2019, a study from Solidar Suisse revealed that workers, particularly children, were exploited in some Malaysian plantations from which Nestlé purchases its oil.

"This symbolic pressure from the public and from NGOs is important to ensure that western manufacturers are made aware of their responsibility," says Garcia. "The challenge is not to stop the expansion of palm oil, but to encourage development methods that have a minimal impact on biodiversity and favour local populations. From an agronomic perspective, oil palms are a fantastic plant. I truly believe that sustainable production is possible."

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