

By Niluksi Koswanage

KUALA LUMPUR, July 7 (Reuters) - The slow uptake of pricier "green" palm oil in European supermarkets may see Asian producers focus on cheaper variants that have been sustainably sourced in the first place, a Malaysian palm industry official said on Tuesday.

The extra cost lies in hiring auditors to ensure palm oil is produced without felling rainforests and building new storage tanks and processors to keep the supply chain "clean", but this has not worked with consumers, Malaysian Palm Oil Council Chief Executive Yusof Basiron said.

Price-conscious shoppers are now finding it difficult to think green in the global downturn, food manufacturers and supermarket chains have said, and the economics does not help.

Palm oil undergoing an ethical certification process trades at a \$50 premium to wholesale prices, currently at \$600 a tonne, halving its discount to rival soyoil, industry watchers say.

"We have been led down the path of false hope in selling environmentally certified palm oil and now the buyers are not keen on paying for the premium," Yusof told Reuters in an interview.

"It's clear that all these demands from the NGOs to be environmentally sustainable, which we obviously have been for many years and decades, is just a trade barrier in disguise."

Malaysia and Indonesia, the top palm oil suppliers, ship 34 million tonnes of the vegetable oil globally, with the European Union taking up roughly 15 percent for food and fuel requirements, industry data showed.

For a graphic on Malaysian palm oil shipments in 2007 and 2008 to selected destinations, go to:

[http://graphics.thomsonreuters.com/079/MY\\_PLMEX0709.jpg](http://graphics.thomsonreuters.com/079/MY_PLMEX0709.jpg)

In recent years, European lawmakers and green groups moved to cut region's targets on traditional biofuel use and called for an ethical certification system in the food sector because of fears that rapid estate expansion to keep up with booming global demand encouraged deforestation.

Malaysia hit back, saying its oil palms were planted on agricultural land long cleared of forests. But it went along with Indonesia to support the certification system that includes commitments to preserve wildlife and treat local communities fairly.

The Roundtable on Sustainable Palm Oil (RSPO), created in 2004, had seen only 15,000 tonnes of certified green palm oil sold since the first shipment last November, just 2.5 percent of total certified output so far, a top RSPO official said in May.

"The market signal is very clear. We can supply at a premium but if buyers are clearly not interested, the palm oil suppliers

will have to change tack. This is still a business, after all," Yusof said.

Yusof said demand for palm oil produced without the certification process was still strong, thanks to the Middle Eastern countries as well as top consumers China and India, whose populations are expanding.

"We are just net exporters supplying the needs of net importers and there will always be demand even if Europe slows down buying," he said.

"We can survive these campaigns and threats by green groups but the European consumer is king and he or she has spoken quite loudly based on what has been put into the shopping cart."

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