

Palm Off the “Red Gold:” Headwinds for EU Palm Oil Trade?

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In 2023, the European Union (EU) enacted the EU Deforestation Regulation (EUDR), preventing commodities linked with deforestation and forest degradation from entering the EU market. The anti-deforestation regulation applies to a wide range of products such as palm oil, soy, wood, cocoa, coffee, rubber, and cattle, as well as their derivative products like chocolate, leather, and cosmetics. Malaysia and Indonesia, the world’s top two palm oil producers and exporters, have raised official concerns that EUDR as well as other related EU policies could negatively impact their palm oil exports to the EU. This EBOT discusses the EU regulatory environment and its impact on EU palm oil – known to some as ‘red gold’ – trade.

Palm Oil and EUDR

As the leading vegetable oil in the world, both in terms of production and consumption,¹ palm oil is important to the global agri-food sector.² Due to its price competitiveness, palm oil is a key vegetable oil source in many emerging economies with rapidly growing vegetable oil demand. Globally, the top three palm oil importers are India, China, and the EU; the United States is the fifth-largest importer of palm oil, importing on average 1.6 million metric tons (MMT) the last three years, approximately \$1.7 billion in value.³ Known for its greater oil yield per cultivated hectare compared to other vegetable oils, palm oil is used in various products including foods, cosmetics, and biofuel.⁴ The use of palm oil for biofuel feedstock is limited to a few countries, notably palm oil-producing countries such as Indonesia and Malaysia. Because of energy and climate policies that promote biofuel production, the EU also uses palm oil as a biofuel feedstock.

Palm oil in recent decades has received a lot of attention due to concerns regarding palm oil production expansion at the cost of deforestation and habitat loss. Following concerns raised by non-governmental organizations and environmental groups, palm oil producers and processors have been encouraged to voluntarily comply with deforestation-related standards. Starting with the establishment of the Roundtable of Sustainable Palm Oil (RSPO) in 2004, many producers and processors have utilized different private certification systems to market their palm oil.⁵

The EUDR entered into force on June 29, 2023, requiring business operators to ensure that covered agricultural commodities entering the EU market have not contributed to deforestation or forest degradation that occurred after December 31, 2020.⁶ One provision of the EUDR requires business operators to collect and keep information on where the commodities and derived products were made or produced, contact information of the importer and the exporter, and other verifiable information that the relevant products were not grown on deforested land.⁷ The majority of the EUDR’s compliance

¹ USDA Foreign Agricultural Service, [USDA FAS - PSD Online](#), accessed October 20, 2023. Palm oil, excluding palm kernel oil, accounted for approximately 35 percent of global vegetable oil production in marketing year 2021/22.

² Palm oil is also known as “Red Gold,” referring to palm oil’s natural red color.

³ Palm oil under the [Harmonized System](#) includes crude palm oil (1511.10) and refined palm oil (1511.90).

⁴ WWF, “[8 Things to Know about Palm Oil](#),” accessed October 20, 2023. On average, Indonesian and Malaysian oil palm trees yield more than 3 metric tons of oil per hectare. For comparison, substitutable vegetable oils such as soybean oil and rapeseed oil yield less than 1 metric ton of oil per hectare.

⁵ Berry and Weaver, “[Exporting Ecolabels](#),” July 2018; EPOA, IDH, and RSPO, [Sustainable Palm Oil: Europe’s Business](#), September 2022. According to RSPO’s 2022 [Impact Report](#), approximately 20 percent of global palm oil production is certified under a sustainability certification scheme.

⁶ European Parliament and the Council of the European Union, Regulation [\(EU\) 2023/1115](#), Art.38, May 31, 2023.

⁷ European Parliament and the Council of the European Union, Regulation [\(EU\) 2023/1115](#), Art.5, May 31, 2023.

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provisions will apply starting December 30, 2024 (June 30, 2025 for micro and small firms), providing business operators a transition period of 18 months.⁸

Palm Oil Trade in Context

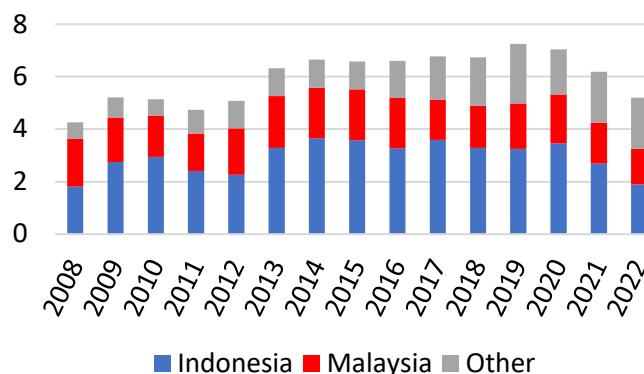
As the world's top two palm oil producers and exporters, Indonesia and Malaysia accounted for more than 80 percent of global palm oil production in 2021/22, or 60 MMT combined.⁹ The two countries also accounted for close to 90 percent of global palm oil exports (38 MMT) in that year. The EU, the third-largest importer of palm oil, behind India and China, has imported palm oil for both food and industrial use.¹⁰ However, the EU's palm oil consumption for food use has been trending downward the last ten years while consumption for its biofuel industry grew. In contrast, India's and China's palm oil usage has focused on food use.

While India and China's palm oil imports have continued to grow, EU palm oil imports notably declined in recent years. During 2008–19, the EU on average imported 4.8 MMT of palm oil annually from Indonesia and Malaysia (fig 1). In the last three years (2020–22), however, the EU's average palm oil imports from the two suppliers were down to 4.3 MMT on average. One of the main drivers of decreased palm oil imports is the EU's new Renewable Energy Directive (RED) for the period 2021 to 2030, which requires EU member states to phase out biofuels that utilize feedstock associated with a high degree of indirect land use change¹¹ (ILUC) for biofuel production.¹² Since palm oil-based biofuels were categorized as high-risk ILUC biofuels, Indonesia and Malaysia saw their palm oil exports to the EU drop sharply. Indonesia and Malaysia launched World Trade Organization disputes against the EU, arguing that the EU's RED is discriminatory against palm oil.¹³

Looking Ahead

Global demand for vegetable oil, including palm oil, should remain steady over the next decade, especially in emerging economies.¹⁴ Many of these customers, highly sensitive to price shocks and food insecurity, will continue to source palm oil as a steady and competitively priced supply of vegetable oil to meet growing demands for food purposes, not for biofuel feedstock. However, EU palm oil imports are likely to continue to decrease as the regulatory environment evolves.¹⁵

Fig 1. EU Palm Oil Imports
(MY 2008–2022, in million metric tons)



Source: [S&P Global Market Intelligence](#).

⁸ Flach et al., *Biofuels Annual - European Union*, August 14, 2023.

⁹ USDA FAS, [USDA FAS - PSD Online](#), accessed October 20, 2023. Calculations based on MY 2021/2022.

¹⁰ Krautgartner et al., *Oilseeds and Products Annual - EU*, May 2, 2023. The EU does not produce any palm oil.

¹¹ EU Parliament and the Council of the EU, [Directive \(EU\) 2018/2001](#), Art. 25, December 11, 2023. ILUC includes deforestation or conversion of pristine lands for agricultural expansion to produce biofuel feedstock.

¹² Canola (rapeseed) oil and used cooking oil are the primary feedstocks for biofuel in the EU.

¹³ WTO, "[Malaysia Initiates WTO Dispute Complaint against EU Palm Oil Measures](#)," January 19, 2021. See [WT/DS593/1](#) for Indonesia's complaint and [WT/DS600/1](#) for Malaysia's complaint.

¹⁴ OECD and FAO, [OECD-FAO Agricultural Outlook 2023-2032](#), July 6, 2023.

¹⁵ European Commission, [EU Agricultural Outlook for Markets, Income and Environment 2022-2032](#), January 17, 2023. Palm oil imports from all suppliers are forecast to drop to 3.3 MMT in 2032.

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