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Expliciting the Asian firm driven governance of global value chains of palm oil

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Social and scientific problem

- Emerging markets are increasingly relevant for globally traded agricultural commodities
- China key case**

Commodities	China's share of global imports	Global rank	Unit
Soy	60%	1	USD
Pulp and paper	38%	1	USD
Timber	33%	1	USD
Beef	17%	1	Tonnage
Palm oil	12%	2	USD

Table 1: Chinese imports of selected commodities 2018. Source: Comtrade and USDA PSD

- Literature neglects this trend → focus on “South”- “North” Value Chains

Aim of the paper

- Contribute to an emerging literature and scientific debate (Kaplinsky and Mesner 2008) (Horner and Nadvı 2018) :

How to go beyond the North- South outdated dichotomy in GVC?

How are GVCs and their governance evolving with rise of emerging markets, in particular China?

- Bring an empirical contribution:
case study of Palm Oil Global Value Chain



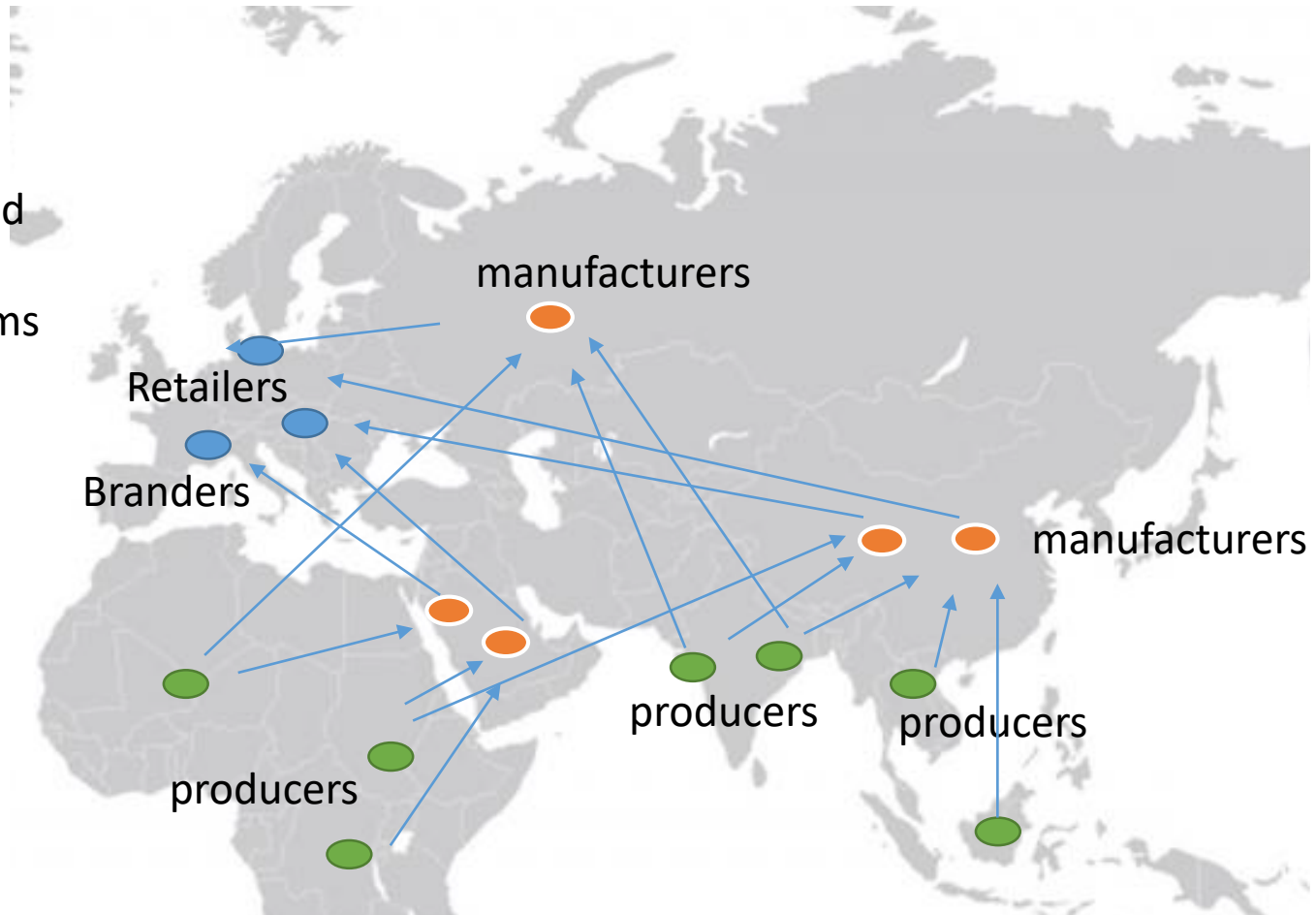
Global Value Chain Theoretical framework

Meso Economic Level where economic actors are structured in a “Chain” which is made of “Nodes”

- Benefits \$\$\$
- environmental and social costs
- coordination norms

Node Economic Power

Monopoly
VS
competitive pressure



Research questions

What is the configuration of economic power in the palm oil GVC?

How is it geographically embedded?

What factors have contributed to its shape?

How is it different for different end markets?

Research hypothesis (drawn from Horner and Nadvi (2018))

1. Persistence of a palm oil GVC governance, driven by downstream Northern lead firms
2. Multiplication of VCs, with different end markets and different scale
3. Rising of “Southern” lead firms with distinct characteristics, State Owned Enterprises for China

Methods and sources

- Structure of the VC; economic and market power measured in terms of traded palm oil quantities; policies, technological and market factors.
- Secondary sources: trade data, corporate data, policies.
- Primary sources: 38 semi structured interviews with experts and actors of the palm oil GVC.

Results 1

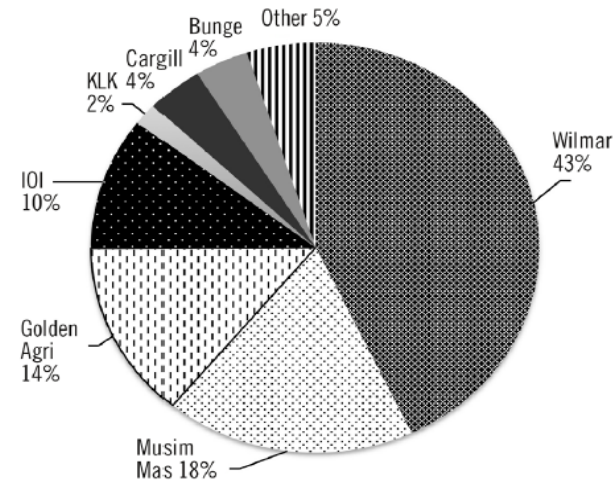
Economic power configuration in the palm oil
global value chain



High industrial concentration in refining node



Figure 2. Market shares of main palm oil traders on the world market



Source: <https://chainreactionresearch.com>

- About 15 firms concentrating the 90% of global refining and trading.
- High capital requirements
- Large economies of scale.

Key firms are mostly South East Asian

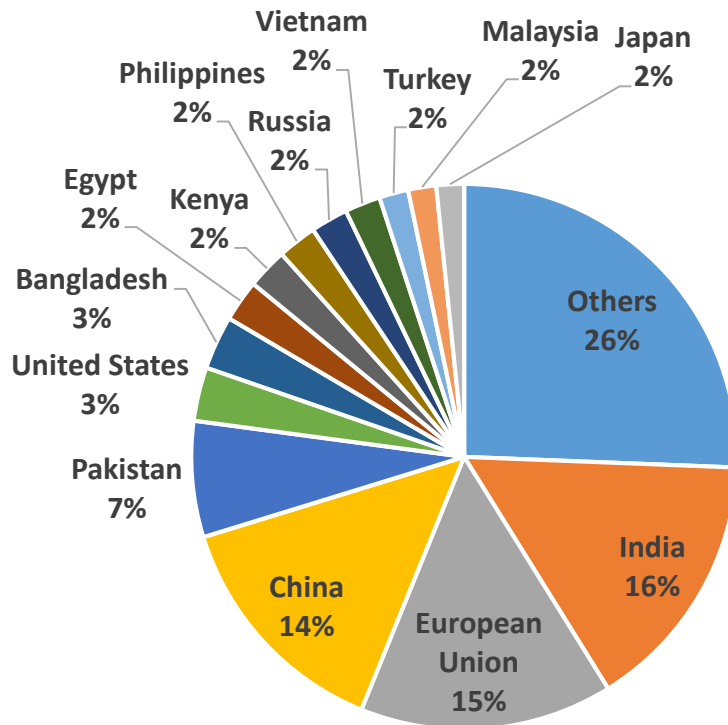
1.0 RSPO Member Name	Member Country	T Vol of palm oil :
Wilmar International Limited	Singapore	20 579 116
Golden Agri-Resources Ltd	Singapore	7 860 035
Musim Mas Holdings Pte. Ltd.	Singapore	7 656 264
AAA Oils & Fats Pte. Ltd.	Singapore	6 444 273
FGV HOLDINGS BERHAD	Malaysia	3 082 771
Sime Darby Plantation Berhad	Malaysia	2 931 083
COMMODITIES HOUSE INVESTMENTS LIMITED	Cayman Islands	3 261 535
Louis Dreyfus Company B.V	Netherlands	2 794 708
Cargill Incorporated	United States	2 219 826
IOI Corporation Berhad	Malaysia	1 999 578
PT. Kharisma Pemasaran Bersama Nusantara (PT. KPBN)	Indonesia	2 159 166
Mewah Group	Singapore	2 187 000
Bunge Limited	United States	1 939 758
Permata Hijau Group	Indonesia	1 660 000
VIRGOZ OILS & FATS PTE LTD	Singapore	1 530 000

Table 2 First 15 firms for volumes of palm oil processed. Source RSPO ACOP 2019, category Refiners and Traders

- **Supporting policies of Indonesia and Malaysia**
- **Partially vertically integrating the upstream** (facilitated land concessions)
- **Partially vertically integrating the downstream** (especially in Asia)

Highly dispersed markets

Geographic distribution of palm oil demand



Industrial sectors

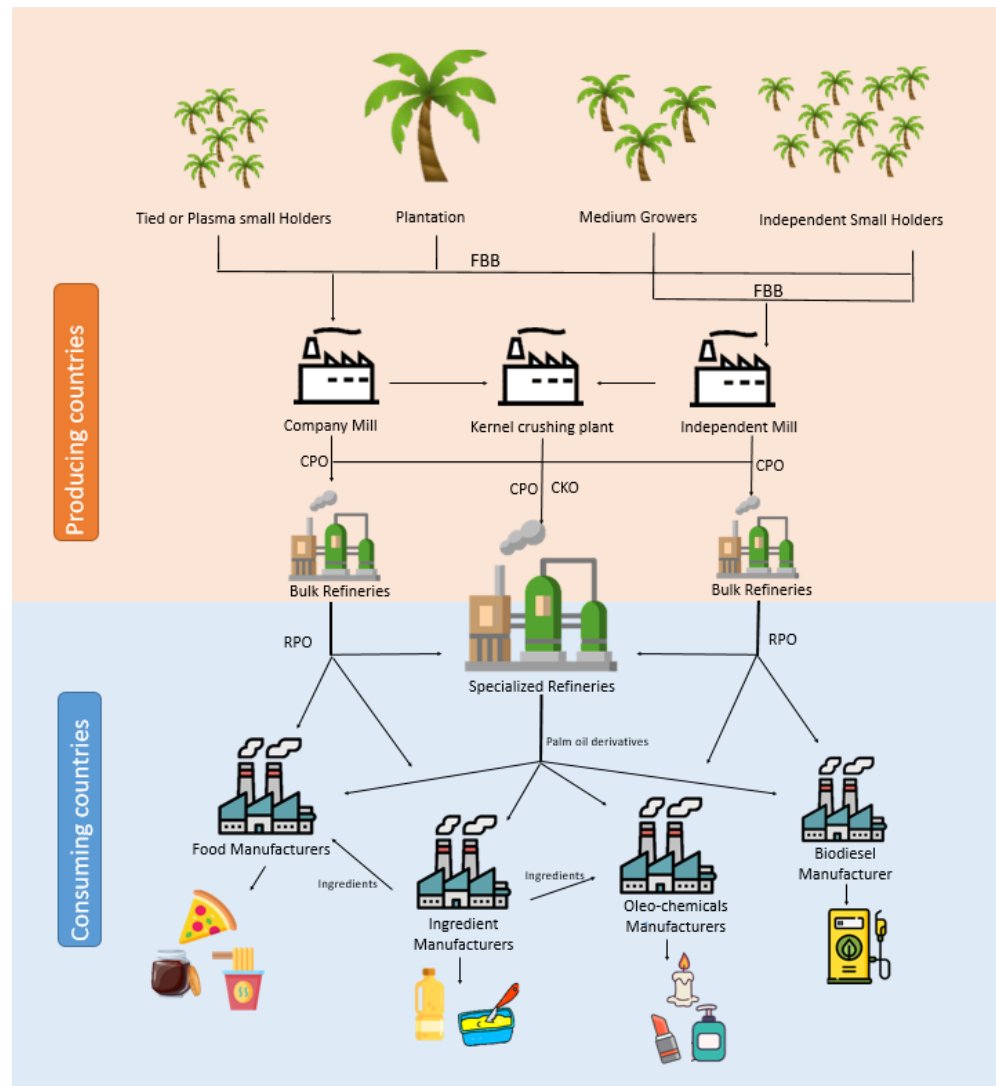
(Processed) Food

Oleochemicals

Biodiesel

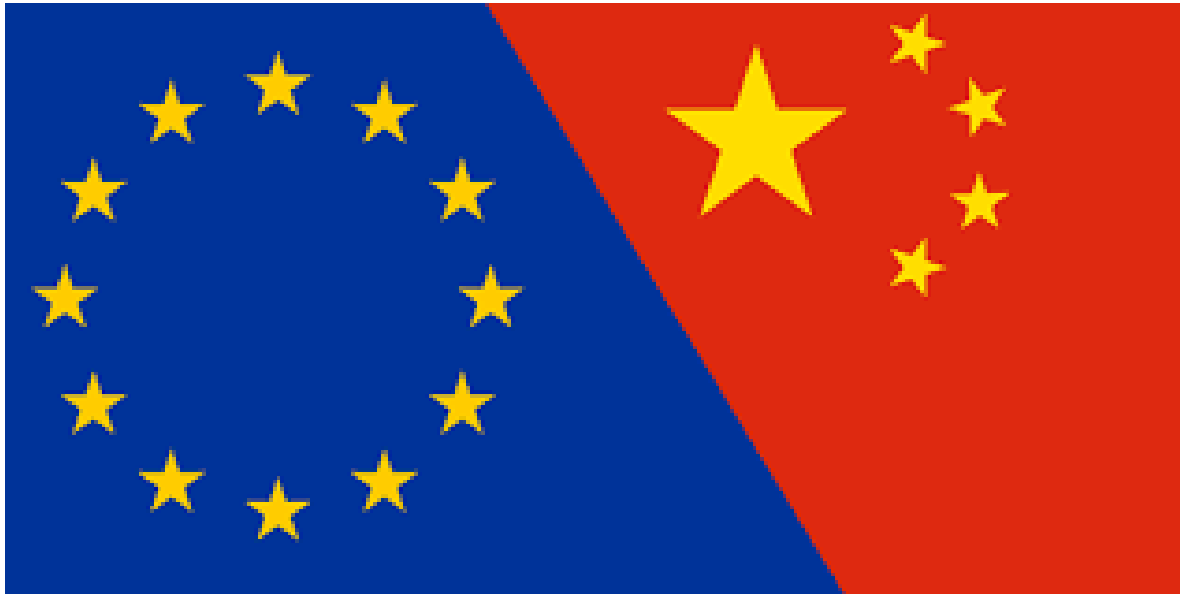
Figure 3: TOP 20 countries importing palm oil . Source USAD PSD

South East Asian refining and trading TNCs are the bottle necks of palm oil global value chains



Results 2

Value Chain supplying China with
comparison with that supplying Europe



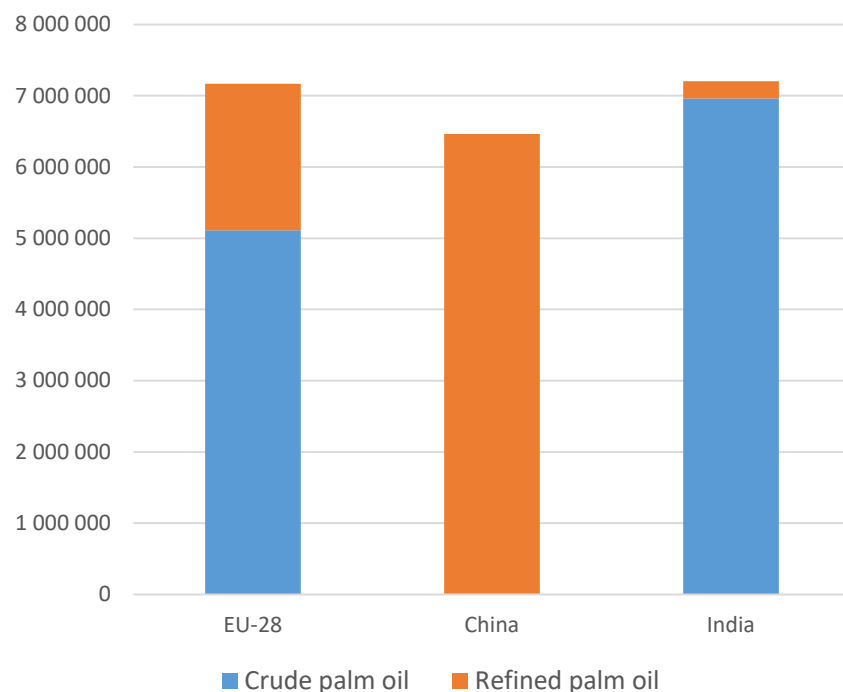
South East Asian refiners and traders are more central in China than in Europe

China and Europe do not buy the same product

SEA Traders and refiners are somehow “Chinese”

Refined VS Crude palm oil markets

Imports of Crude and Refined Palm oil
of 3 biggest importers



Tarrifs	China	EU	India	Indo	Mal
CPO	9%	1,9%	12,5%	7.5% to 22.5%	8%
RPO	8,5%	9%	20%	0%	0%

Table 4: Imports and export taxes
selected countries source (Pacheco 2017)

Tableau 3 : Imports, traded quantities MT 2020, Comtrade data

Food VS Industrial usages

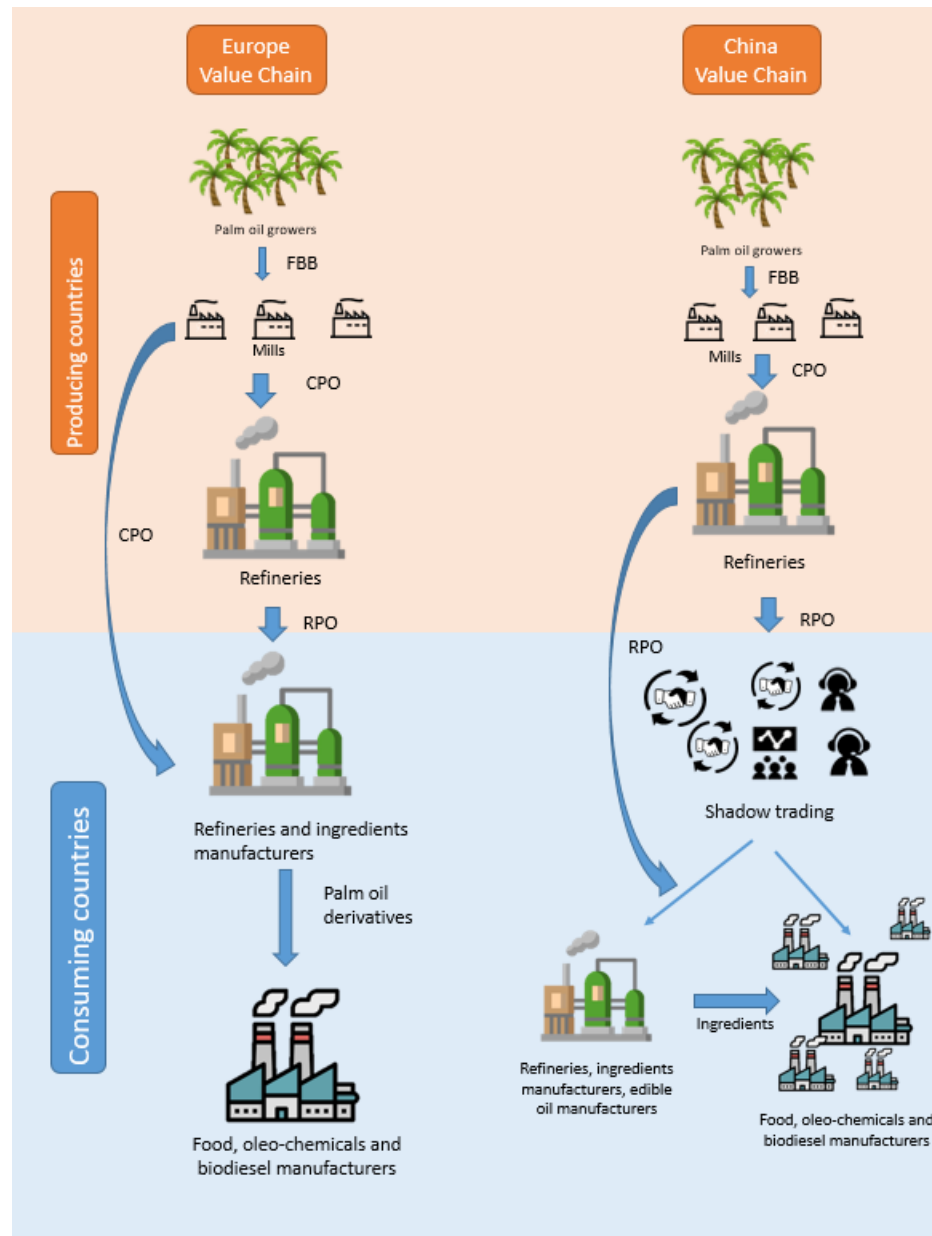


complex molecules, ingredients of industrial processes



70 % food usages

50% relatively unprocessed frying oil



Ambiguous “Chineseness” of South Asian Refiners and Traders are

- Part of industrial conglomerates funded and managed by “Overseas Chinese”: Wilmar, Golden Agri, IOI, KLK, Musim Mas....
- Involved in agro business since colonial times
- Took off after colonization as national champions
- In the 70s Chinese Overseas pioneers investors in liberalizing China
- Bridges between South East Asia and Mainland China

Key example – Kuok Group

- Funded by Robert Kuok - Malaysian of Chinese origin - who made fortune in agro business and commercializing edible oil – Arawana
- In the 70s Ilargely invested in China and moved the headquarter of his group to Hong Kong.
- Within Kuok Group there are:
 - Wilmar : 45% of global palm oil trade
 - Yihai Kerry: 40% of edible oils market share in China

Take away messages

1. Shift of markets to the South or rising Asia?

Markets + policies + industrial basis

2. Rising Asian TNC. Private and non SOEs

3. What implication for governance mechanisms?