



RISK FACTORS

Climate

Weather patterns, such as occur during a severe drought, can affect average oil palm yields by as much as 20%. This impact of climatic events will be experienced in the year of the drought and up to two years after the stress, when the palms produce fewer fruit bunches.

AFTA

Under the Asean Free Trade Agreement (AFTA) it was proposed to remove non-tariff barriers to vegetable oil trade within Asean, with any Tariffs to be reduced to maximum 5% by 2003. This measure has not yet been fully implemented and palm oil imports into Thailand are still restricted by non-tariff barriers.

However, in 2006 Univanich exported 66% of palm oil sales. In developing these new export markets Univanich successfully competed with the major Asean producers in Malaysia and Indonesia.

Competition from Soybean Oil, Rape Seed Oil and Sunflower Oil

The main competitor for palm oil in world markets and in Thailand's domestic market is soybean oil. Competition from soybean oil may increase as a result of increased plantings in South America, encouraged by growing demand for soya meal as an animal feed and by the higher yields from genetically modified soya crops (GMOs)

However, at the present time palm oil is the most price competitive of the eight main oils competing for a share of the world market, and palm oil has the fastest growing market share. It is forecast that the production of soybean oil may decline during the coming five years as American farmers switch to cultivation of Corn for the production of Ethanol fuel (Source USDA)

World Demand Growth

World demand growth for edible oils and fats will depend on world economic growth, world population growth and price trends for oils and fats which will fluctuate according to supply and demand.

Currently there is very strong demand growth. The world's annual consumption of the 17 main edible oils and fats has grown from 65.7 million tonnes in 1984/85 to 143.8 million tonnes in 2005. (Source : Oil World, March 2006) New demand growth is currently around 5.9 million tonnes per year.

One factor driving this demand is the strong economic growth in India and China. If the economies of India and China experience slower growth this may also reduce the rate of growth in the world's demand for vegetable oils.



Biodiesel Demand Growth

Vegetable oils are increasingly consumed as biofuels for electricity generation and for the manufacture of biodiesel. In the EU, biodiesel capacity has surged from 1.9 million tonnes in 2002, to 4.5 million tonnes in 2006. World capacity, including new biodiesel plants now under construction, is expected to reach 13.5 million tonnes by 2007.

With the price of crude petroleum oil above US\$ 50.0 per barrel, the demand for biodiesel manufactured from vegetable oils is likely to increase. Biodiesel is also seen to reduce the effect of fossil fuel on World climate change. Some European Union countries have legislated to force the use of biodiesel in diesel blends. This means consumption growth of biodiesel may not depend on price alone. It is forecast that in the current five year period 2005 - 2010, world demand for vegetable oils is expected to increase by a further 29.2 million tonnes, of which 16.5 million tonnes will be new demand for biofuel use (Source : LMC International)

If the price of crude petroleum oil should fall significantly below US\$ 50.0 per barrel, there may be a reduced rate of new demand growth for biodiesel.

Exchange rates

International trade in palm oil is conducted in US dollars. Exporters from Thailand can therefore be affected by the value of the Thai Baht relative to the US dollar.

In 2006, 66% of Univanich sales were exports denominated in US dollars. In the short term Univanich hedges any currency risk on individual sales contracts.

Competition from new crushing mills

In Thailand there is strong competition for purchased fruit amongst 40 major crushing mills. Univanich has about 11% share of this market. New crushing mills and expanded existing mills can affect the level of competition for purchased fruit.

Although new crushing capacity is entering the industry every year, Univanich has achieved a good long term growth rate. This has been made possible by the continuing expansion Thailand's oil palm planted area which is reported to have increased from 2.0 million rai in 2003 to 3.1 million rai in 2006. (source: Department of Agriculture). At this rate of planting growth, Thailand will require a similar rate of expansion of crushing capacity.