

## Palm Oil after ESG: Is Golden Crop losing its crown?

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For decades, the ascendancy of palm oil within the pantheon of global vegetable oils seemed nothing short of immutable. Its unmatched land efficiency, coupled with unparalleled versatility, rendered it indispensable—fueling industrial food systems, underpinning the edifice of consumer goods, and more recently, energising biofuel markets. Southeast Asia constructed entire developmental paradigms around this verdant monoculture; India and China wove it seamlessly into their consumption matrices. Multinational corporations, with canny acumen, capitalised on the scale, reaping profits that seemed both inexorable and inexhaustible.

Yet, as 2025 draws to a close, palm oil's indispensability remains uncontested, but the modalities of its dominion have metamorphosed. The commodity, erstwhile governed predominantly by the vagaries of land allocation and price discovery, now finds itself under the aegis of regulation, traceability imperatives, capital discipline, and geopolitical choreography. Demand, though robust and structural, is increasingly contingent upon conditional access; compliance costs have proliferated, and supply chains are inextricably entwined with energy policy. Investors have commenced a meticulous repricing of risk, and regulators wield ESG as both cudgel and compass. This is not a narrative of obsolescence; it is, rather, a tale of a power transition—from hectares to governance, from sheer volume to verifiable authenticity, and from unbridled expansion to judicious credibility.

#### From Golden Crop to Strategic Commodity

The global ascendancy of palm oil is explicable, in large measure, by its biological efficiency. The oil palm's oleaginous productivity per hectare dwarfs that of soy, rapeseed, or sunflower, enabling Indonesia and Malaysia to industrialise agronomy

while sustaining burgeoning populations. Malaysia's contribution, often overshadowed by Indonesia's sheer volumetric supremacy, was seminal. The nation architected the institutional scaffolding of the industry: sophisticated plantation science, advanced refining and oleochemical capacity, futures markets, and stringent quality control systems. By the mid-2010s, Malaysia had pivoted decisively from mere land expansion to enhanced productivity and downstream value creation—a strategic recalibration that would later prove prescient.

However, this ascendancy was not without profound environmental and social externalities. Plantation proliferation catalysed deforestation, peatland degradation, and socio-economic dislocations, occasionally precipitating community conflicts. Initially illuminated by NGOs, these challenges were amplified by consumer advocacy and shareholder activism, ultimately codified within regulatory frameworks. By 2025, the appraisal of palm oil transcended metrics of output and cost; it had become a crucible for ESG governance, regulatory fidelity, and geopolitical sagacity.

### **ESG Crosses the Rubicon and Malaysia's Strategic Advantage**

The inflection point of the decade materialised when sustainability transcended voluntarism to become a statutory imperative. The European Union's Regulation on Deforestation-free Products (EUDR), inaugurated in 2023 and deferred in late 2025, profoundly recalibrated palm oil supply chain architecture. Though the deferral mitigated immediacy, the underlying objective remained incontrovertible: to preclude commodities implicated in deforestation from ingress into one of the world's most consequential consumer markets. Palm oil, alongside selected derivatives—crude oil, kernel oil, and palm-derived chemicals—fell squarely within the regulation's ambit.

For multinational procurers, the implication was unequivocal: opacity was untenable. Commodities must be traceable to their point of origin, verified as legally produced, and demonstrably insulated from deforestation and ecological degradation. Pledges devoid of evidentiary substantiation were, quite simply, insufficient. Malaysia, presciently, seized upon this regulatory milieu, positioning itself as a low-risk, compliant supplier. The nation's National Traceability System—an integration of the e-Malaysian Sustainable Palm Oil platform, GeoSawit, and the Sawit Intelligent Management System—consolidates certification data, geolocation coordinates, and verified transaction records, enabling EUDR-relevant intelligence to be centrally accessed and disseminated to EU partners. By these measures, Malaysia emerges as one of the most prepared producer countries, ensuring smallholders are neither marginalised nor excluded due to onerous compliance thresholds.

Indonesia, by contrast, accentuated sovereignty and domestic absorption through energy policy, revealing a bifurcation in strategic paradigms: Malaysia foregrounded compliance and transparency; Indonesia, volume-led energy optimisation.

### **Traceability as a Balance-Sheet Variable**

By 2025, traceability had transcended reputational optics to become a quantifiable balance-sheet consideration. Corporations sourcing palm oil across packaged foods, personal care, and industrial applications faced intensifying scrutiny—not only from civil society or consumers, but increasingly from investors, credit agencies, and insurers. Land-use and biodiversity risk became measurable, incorporated into credit decisions, equity analyses, and ESG-linked investment frameworks.

Platforms such as Morningstar Sustainalytics furnished investors with insights into company deforestation-management programmes, grievance mechanisms, and auditing efficacy. The findings revealed heterogeneity: while many corporations maintained formal protocols, traceability often concluded at the mill rather than the plantation; grievance systems were inconsistently implemented, and audit rigor varied. Exemplars—Unilever, Danone, and Colgate-Palmolive—invested in plantation-level verification, supplier engagement, and transparent reporting. In 2025, traceability ceased to be a mere compliance cost; it was a licence to operate and a strategic differentiator.

### **Why Deforestation Persists**

Despite decades of advocacy, corporate commitments, and regulatory initiatives, deforestation associated with palm oil expansion endures. The sector's scale renders it highly visible within ESG discourses. Since the mid-2000s, production has more than doubled, surpassing 78 million tonnes by the mid-2020s. Expansion, particularly in Indonesia, continues to impinge upon forested tracts, exacerbated by fragmented land tenure, smallholder pressures, and uneven local enforcement.

Forest clearance, accelerating after periods of relative stabilisation, underscores the fragility of prior progress. With demand projected to multiply several-fold by mid-century, pressures on forest ecosystems will intensify unless sustainable intensification, yield enhancement, and smallholder integration are prioritised. Failure to reverse these trends imperils climate targets and supply chain stability alike.

### **Investors Reprice Land-Use Risk**

Until recently, corporate linkages to deforestation were largely reputational. By 2025, financial consequences crystallised. Investors recalibrated portfolios to account for regulatory risk, supply chain disruption, and reputational exposure. Corporations with robust, traceable supply chains—particularly in Malaysia—gained competitive advantage. Estate-based models, cooperative smallholder programmes, and national certification systems underpinned compliance at scale.

Anti-deforestation programmes now functioned dually: regulatory shields and risk mitigants. They reduce the probability of shipment rejection, contractual disruption, or exclusion from regulated markets. In a tightening ESG milieu, corporations lacking rigorous programmes faced escalating operational and financial vulnerability.

### **Indonesia's Biodiesel Pivot and Smallholder Dynamics**

While ESG reshaped demand, energy policy and production structures redefined supply. Indonesia, the world's premier palm oil producer, accounted for approximately 55 per cent of global output in 2025. Its aggressive biodiesel expansion redirected millions of tonnes of crude palm oil away from exports, delivering domestic benefits: diminished fuel imports, stabilised farmer income, and political capital in rural constituencies. For global markets, however, this constricted supply, elevated price floors, and intensified volatility.

The production landscape is further complicated by smallholders, who constitute nearly half of output yet exhibit yields of merely two to three tonnes per hectare—substantially lower than the six to eight tonnes typical of larger estates. The yield disparity, coupled with restricted access to finance, technology, and certification mechanisms, introduces material risks to both smallholder livelihoods and national competitiveness. Multinational buyers and investors must factor this heterogeneity into assessments of supply reliability and compliance risk.

### **Export Flows, Trade, and Price Dynamics in 2025**

Indonesian palm oil maintained global competitiveness in 2025, underpinned by robust export flows and new trade arrangements, including a free trade pact with the Russia-led Eurasian Economic Union (EAEU). Malaysia's exports rose 7.7 per cent month-on-month to 1.42 million tonnes in September, marking the strongest monthly performance in nearly a year, according to the Malaysian Palm Oil Council (MPOC). Gains were driven by most key regions, excluding EU27 and Asia-Pacific. South Asia, notably India, absorbed 312,000 tonnes—the highest level in 11 months. Exports to Sub-Saharan Africa, MENA, the Americas, and Central Asia also expanded appreciably.

Despite export growth, inventories in Malaysia climbed to 2.36 million tonnes, the highest in 22 months, reflecting normalised domestic consumption after a record August of 499,000 tonnes. Imports increased by 20,000 tonnes, further swelling stocks.

Palm oil reclaimed a premium over soybean oil in global markets. By mid-October, it traded \$ 42 per tonne above soybean oil in Europe and \$ 26 higher in India. The brief April–September discount reversed partly due to speculation surrounding Indonesia's potential B50 biodiesel mandate, which would require an estimated 17 million tonnes of palm oil—3 million tonnes more than the existing B40 mandate—absorbing roughly 35 per cent of domestic output and leaving about 22 million tonnes for export.

Global vegetable oil dynamics were also affected by constrained soybean and sunflower oil supplies. US and Brazilian soybean oil exports were projected to decline 41 per cent year-on-year, while Argentina's temporary export tax exemption triggered forward sales to China, curtailing local crushing activity. Sunflower oil prices remained elevated, trading \$ 75 above palm oil and \$ 100 above soybean oil in Europe. The ongoing US–China trade conflict further accentuated supply uncertainty. MPOC forecasted continued firmness in vegetable oil prices, with palm oil expected to sustain levels above RM4,400 per tonne, although market sentiment remained circumspect due to crude oil volatility, inventories in key markets, and geopolitical tension.

### **Investor Flows: Singapore Mid-Cap Initiative**

Capital markets, too, were active arbiters of sectoral trajectories. The Monetary Authority of Singapore (MAS) allocated USD5 billion to fund managers to seed investments in promising mid-cap companies, opening a conduit for capital into Southeast Asian agribusiness equities, including palm oil-related stocks.

On 6 October, Fullerton Fund Management launched Fullerton Singapore Value-Up, the first retail fund under the MAS programme, investing across small-, mid-, and large-cap Singapore-listed securities. Although specific counters were undisclosed, UOB Kay Hian and Maybank Research projected that First Resources and Golden Agri-Resources would attract significant allocation. First Resources is a constituent of the iEdge Singapore Next 50 indexes, which track the largest 50 stocks by market capitalisation and liquidity after excluding the 30 blue-chip Straits Times Index components.

Investors may also access palm oil exposure via Wilmar International, whose diversified portfolio encompasses cultivation, processing, and downstream integration. Collectively, these initiatives underscore the evolving interplay between regulatory compliance, supply-side dynamics, and financial capital in shaping the sector's trajectory.

## **Trade, Diplomacy, and Fragmentation**

By 2025, the geopolitics of palm oil had become a complex lattice of strategic alignments, regulatory signalling, and market-driven diplomacy. The commodity was no longer merely a trade good; it had become an instrument of soft power and economic leverage. Indonesia, cognizant of the increasing stringency of ESG-led frameworks in Western markets, consciously pivoted toward alternative trading partners less encumbered by regulatory rigor. The Russia-led Eurasian Economic Union (EAEU) emerged as a natural conduit for Jakarta, offering not only expanded market access but also alignment with nations prioritising volume and energy security over deforestation compliance. This move, while pragmatic, reflected a broader Indonesian strategy: to diversify market dependency, reduce exposure to punitive ESG regimes, and safeguard domestic policy autonomy, particularly for its biodiesel mandates.

Meanwhile, China deepened its engagement with ASEAN producers through bilateral and regional sustainability frameworks that, while aligned with some ESG principles, emphasised pragmatism, market access, and domestic food security over the stringent verifications required in Europe. Beijing's approach facilitated preferential supply agreements, capacity-building programmes, and technical partnerships, reinforcing its position as a reliable purchaser even when Western markets imposed conditionality. In effect, China was cultivating a parallel governance ecosystem, one that harmonised sustainability ambitions with commercial expediency and regional diplomacy.

Malaysia, by contrast, exercised a strategy of calibrated optionality. Kuala Lumpur maintained robust engagement with Europe through the National Traceability System, signalling compliance and reliability to ESG-conscious markets. Simultaneously, it expanded trade with India, the Middle East, and select premium Asian markets, leveraging both volume and differentiated quality to maximise revenue capture. By maintaining dual-track diplomacy—regulatory alignment on one hand and diversified market cultivation on the other—Malaysia positioned itself as a stabilising hub in an increasingly fragmented global palm oil system.

Trade flows in 2025 increasingly mirrored governance credibility and regulatory compliance rather than mere production scale. Buyers and investors were willing to pay premiums for traceable, verified supply, while markets perceived as opaque or non-compliant faced exclusion or price discounts. The result was a discernible segmentation of the global palm oil market: Europe and other ESG-driven markets demanded documented compliance; Asia, the Middle East, and parts of Africa prioritised reliability, cost, and availability, with flexibility on verification protocols. In this context, trade negotiations, bilateral agreements, and regional alliances were no longer ancillary; they were central to the strategic calculus of producers, exporters, and financiers.

Ultimately, 2025 crystallised a geopolitical realignment in which the governance architecture of production—traceability systems, certification frameworks, and ESG adherence—became as critical as volume and price. Palm oil diplomacy had transformed from a commodity-driven exercise into a multidimensional contest of regulatory compliance, market access, and strategic hedging, where producers and consumers alike navigated a terrain defined as much by geopolitics as by supply and demand.

## **The 2025 Inflection Point**

The year 2025 crystallised a structural inflection in the global palm oil sector, marking a decisive transition from a volume-centric commodity paradigm to a governance- and compliance-driven ecosystem. Several concurrent developments coalesced to create a new hierarchy in which risk management, regulatory adherence, and strategic market positioning became paramount determinants of success.

Foremost among these developments was the advance of the European Union's Regulation on Deforestation-free Products (EUDR) toward formal enforcement. While the regulation's compliance timeline was deferred, the underlying imperative remained unambiguous: companies sourcing palm oil and related commodities must demonstrate traceable, deforestation-free supply chains. This regulatory shift transformed what had been largely voluntary sustainability commitments into non-negotiable operational requirements, compelling corporations to invest in verification systems, engage smallholders, and enhance plantation-level transparency. Failure to comply now carried not only reputational risk but the tangible prospect of market exclusion from one of the largest consumer blocs in the world.

Simultaneously, traceability emerged as a critical commercial and strategic variable. Corporations with robust, transparent systems could command premiums, reassure investors, and secure long-term contracts, whereas opaque supply chains faced

escalating scrutiny. Malaysia's integrated traceability framework, underpinned by the National Traceability System, positioned the nation advantageously, allowing it to capture value in premium markets and establish itself as a benchmark for ESG-aligned supply.

On the supply side, Indonesia's biodiesel mandate—particularly the potential B50 programme—substantially tightened exportable volumes. By redirecting millions of tonnes of palm oil to domestic biofuel blending, Jakarta effectively altered global supply-demand balances, introducing volatility and reinforcing price floors. The policy simultaneously underscored the strategic interplay between domestic energy security, rural political considerations, and international trade, highlighting the multifaceted levers that now influence market dynamics.

Capital flows further accentuated the structural pivot. The Monetary Authority of Singapore's \$5 billion mid-cap investment initiative and subsequent fund launches, including Fullerton Singapore Value-Up, enhanced liquidity and investor engagement in palm oil equities, particularly for companies demonstrating regulatory compliance, governance robustness, and operational scalability. Singaporean capital thus became an active arbiter of sectoral trajectory, incentivising transparency and risk mitigation alongside traditional commercial metrics.

Taken together, these forces crystallised a paradigm shift. The sector no longer operates purely on supply and demand fundamentals; market leadership is now contingent on a confluence of regulatory compliance, traceable and resilient supply chains, capital access, and strategic diplomatic positioning. Malaysia's emphasis on governance and traceability, Indonesia's energy-driven production strategy, and Singapore's investment facilitation collectively signal that the hierarchy of winners and laggards is defined as much by institutional sophistication and market foresight as by hectares under cultivation or tonnage produced.

In essence, 2025 represents a structural inflection point where risk, governance, and access have supplanted volume as the primary arbiters of sectoral pre-eminence. The golden crop retains its centrality in global food and energy systems, but its stewardship is now measured not merely in production metrics, but in the rigour of its governance, the transparency of its supply chain, and the agility of its market and investment strategies.

### **Conditional Leadership**

Palm oil retained its crown in 2025—but with a crucial caveat: the sovereignty of this dominion is now conditional. The commodity's indispensability remains, yet supremacy must be earned through governance, traceability, policy foresight, and strategic alignment. Malaysia exemplifies conditional resilience via compliance, integration, and premiumisation. Indonesia demonstrates the benefits—and perils—of volume-led energy policy and smallholder reliance. Singapore's investor mobilisation illustrates that financial capital is an increasingly potent arbiter of the sector's future.

In a post-ESG, post-2025 world, palm oil's legitimacy is adjudicated not by hectares, yields, or sheer tonnage, but by proof of governance, verifiable traceability, sustainability credentials, and alignment with the exigencies of investors and regulators.

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