

# Market opportunities and entry strategies for palm oil products in the United Kingdom

*Preliminary version (August 2020)*



Sierra Leone

West Africa Competitiveness Programme

## About the paper

This study was undertaken by the International Trade Centre within the framework of implementing the Sierra Leone West Africa Competitiveness Programme, which is financed by the European Union under the 11th European Development Fund and implemented by the United Nations Industrial Development Organisation in partnership with the International Trade Centre.

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## Introduction

The International Trade Centre (ITC), in partnership with the United Nations Industrial Organisation (UNIDO), is implementing a technical assistance project in Sierra Leone under the West African Competitiveness Programme (WACOMP). The project aims at increasing Sierra Leone's competitiveness through enhanced productivity and trade compliance in the cocoa, cassava and oil palm value chains with a view to boosting the country's integration into regional and global value chains.

The project has specific objectives of improving the performance, growth and contribution to industry, regional trade and exports of the three value chains, and improving the business climate at the national level.

Identification of international market opportunities for Sierra Leone's oil palm products and developing a roadmap for product and market development to facilitate access to global markets have been an important objective of interventions under the project. This study is conducted to respond to these needs by identifying and analyzing opportunities in the United Kingdom (UK) market and proposing useful market entry strategies into the UK for Sierra Leonean producers and exporters.

## Acknowledgements

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## Acronyms

AGOA	African Growth and Opportunity Act
B2B	Business to Business
BRC	British Retail Consortium
EORI	Economic Operators Registration and Identification
EPA	Economic Partnership Agreement
EU	European Union
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HACCP	Hazard Analysis Critical Control Points
HMRC	Her Majesty's Revenue & Customs
HS	Harmonize System
IFS	International Featured Standards
IGD	Institute of Grocery Distribution
ISO	International Standards Organisation
ITC	International Trade Centre
NPD	New Product Development
RSPO	Roundtable on Sustainable Palm Oil
SME	Small and Medium-sized Enterprise
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
USP	Unique Selling Propositions
VAT	Value Added Tax
WACOMP	West Africa Competitiveness Project

## Executive summary

Palm oil represents a unique market in the UK, it is a mature, single-product with an unpopular consumer perspective<sup>1</sup>. It is product with a high volume, bulk market dominated by global entities, and its demand has plummeted.

Palm oil enjoys a very mature market and is diverse in terms of use; with energy, animal foods and cosmetics manufacturing all providing potential avenues for export.<sup>5</sup> Although, the cosmetics market has become increasingly hit by negative public relations. Currently, food manufacturing dominates and sustainability certifications are essential to access this market with great volume. Entry points depend heavily on whether the imported product is crude or refined.

Although palm oil requires a tailored long-term strategy, it stands to increase in volume by developing a campaign focused on World Food niche areas. Sierra Leonean produce could also gain a competitive advantage depending on the outcome of Brexit negotiations, with free trade maintained thanks its existing trade agreement with the United Kingdom<sup>7</sup>.

However, caution should be applied in it, as initial conversations with Sierra Leonean stakeholders reveal substantial supply issues that need to be addressed prior to high volume entry into global markets. Considerable investment is needed for producers in Sierra Leone to fix internal production challenges that currently prevent the countries potential for long term supply into global markets at scale. Additionally, the coronavirus outbreak makes building a long term strategy challenging for supply and demand capabilities.

The following recommendations have been made toward improving the positioning of Sierra Leone's palm oil products into the UK market, as a result of the findings and analysis of this report:

- **Short-term recommendations for palm oil and palm oil related products**
  1. Seek out a viable refining partner or expand options for smallholders, as the market for crude oil in the UK is limited and declining.
  2. Continue to prioritize the Roundtable on Sustainable Palm Oil (RSPO) certification steps, as well as consider a Sierra Leonean board for sustainability and education for smallholders on best practices.
  3. Begin a market readiness and access campaign, aimed at helping SMEs and exporters meet the requirements of the UK food market and forming a detailed plan for market access. This includes identifying key USPs for palm oil in Sierra Leone, sales training and a detailed list of potential customers.
  4. Consider domestic and regional markets to clinch higher demand for non-food value added products such as soap.
- **Long-term recommendations for palm oil and related products:** No long term recommendations have been made due to the vast prospects of the first two recommendations, which will most likely face overwhelming bottlenecks in seeking to establish meaningful and long-lasting UK trade.

## PART 1: THE UK PALM OIL MARKET & RELEVANT DISTRIBUTION CHANNELS

### 1.1. Market Overview

All palm oil imported into the UK is related to the HS code 1511, under which there are two further sub-categories:

- HS 151110: Crude palm oil
- HS 151190: Palm oil and its fractions, whether or not refined (excluding chemically modified and crude).

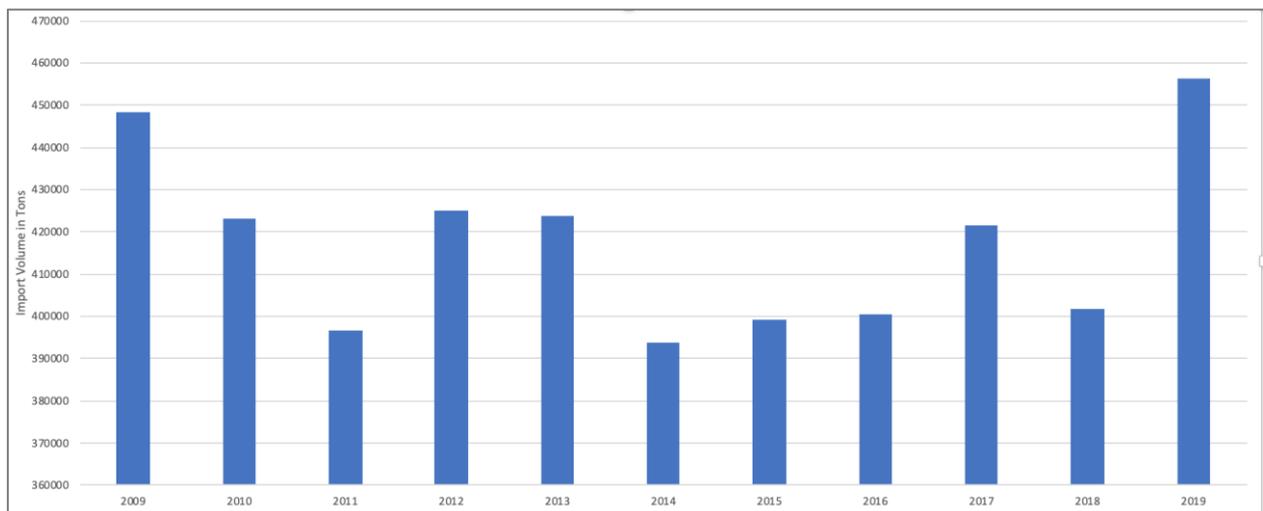
Palm Kernel Oil is also imported under HS 151321, but will not be considered in this report for two main reasons:

1. No imports have ever come directly from Africa.
2. Volumes are extremely small compared to palm oil (32,000 tons compared to almost 500,000).

UN Comtrade statistics indicate palm oil is a relatively new export market for Sierra Leone, with exports data only available since 2013<sup>1</sup>. In 2019, volumes of crude totalled 7,410 tons (\$4.8 million market value), while refined totalled 1,269 tons (\$992,000). Both had grown significantly since 2013. Almost all crude was shipped to just three countries, presumably for processing: Senegal (74%), Portugal (17%) and The Netherlands (8%). Refined also went to just three countries: Senegal (57%), USA (31%) and UK (12%).

Demand for palm oil in the UK is high and has been consistent for over a decade, with volumes between 400,000 and 500,000 tons per annum as displayed in figure 1.

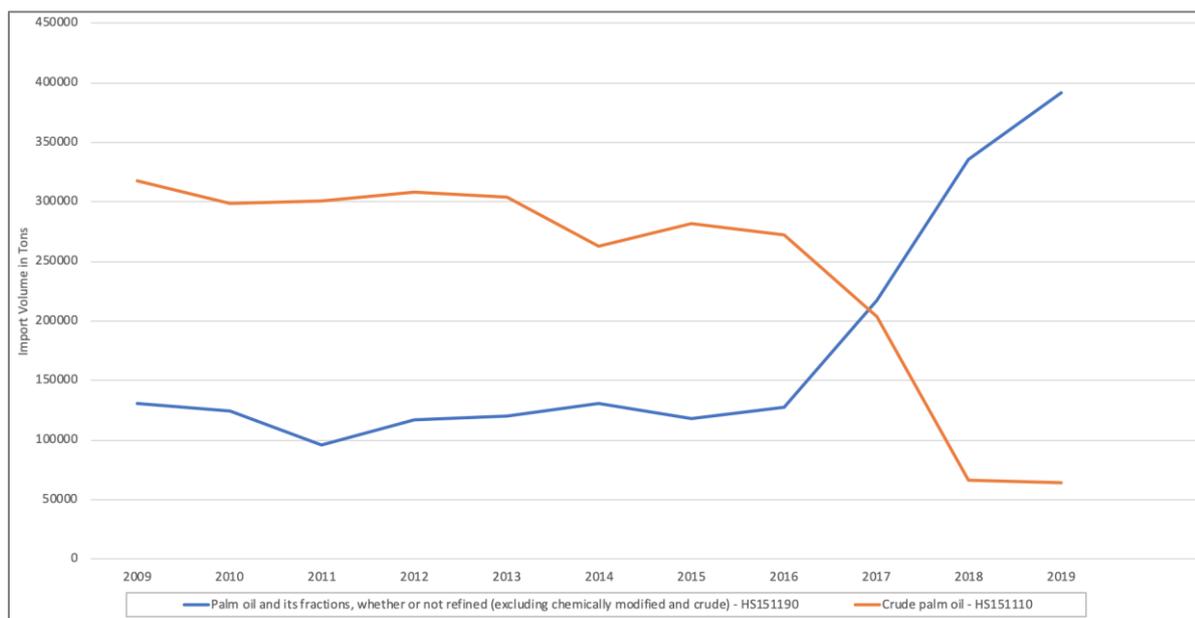
Figure 1 - UK Import volumes of palm oil under HS code 1511



Source: UN Comtrade<sup>2</sup>

This accounted for an overall import value of \$300M in 2019<sup>2</sup>. But there has been a large shift in imports, as displayed in figure 2. This shows that imports of crude have dropped off over the past five years, being replaced by refined.

Figure 2 - UK Import volumes of palm oil goods under HS code 1511, in tons, 2009 - 2019



Source: UN Comtrade Statistics<sup>2</sup>

Further analysis shows that within this refined HS code, the majority of growth was seen in HS Code 15119099 - Palm oil and its liquid fractions, whether or not refined, but not chemically modified (excl. for industrial uses and crude). Imports under this HS code have grown from 34,000 tons in 2015 to over 300,000 tons in 2019.

This shift from crude to refined comes off the back of global investment into palm oil refineries in the country of origin<sup>3</sup>, aimed at tackling both a bottleneck in the supply chain and a worldwide sustainability issue, the latter of which has received considerable press coverage in the UK and has led to commitments from various entities to take a stance on the issue over the past five years<sup>4</sup>.

Despite this negative press, palm oil is still used in a variety of food service and manufacturing settings, but there is an increasing demand for the product to be certified sustainable in line with UK government policy set out in 2012<sup>5</sup>. This policy stated that by 2020, all imports of palm oil into the UK would be certified sustainable. Of these certifications, a 2017 government review of palm oil consumption revealed that Segregated & Mass Balance Certified Sustainable Palm Oil was the favoured certification for UK buyers<sup>6</sup>, however RSPO is also well respected and appears to hold more of a worldwide standing<sup>7</sup>.

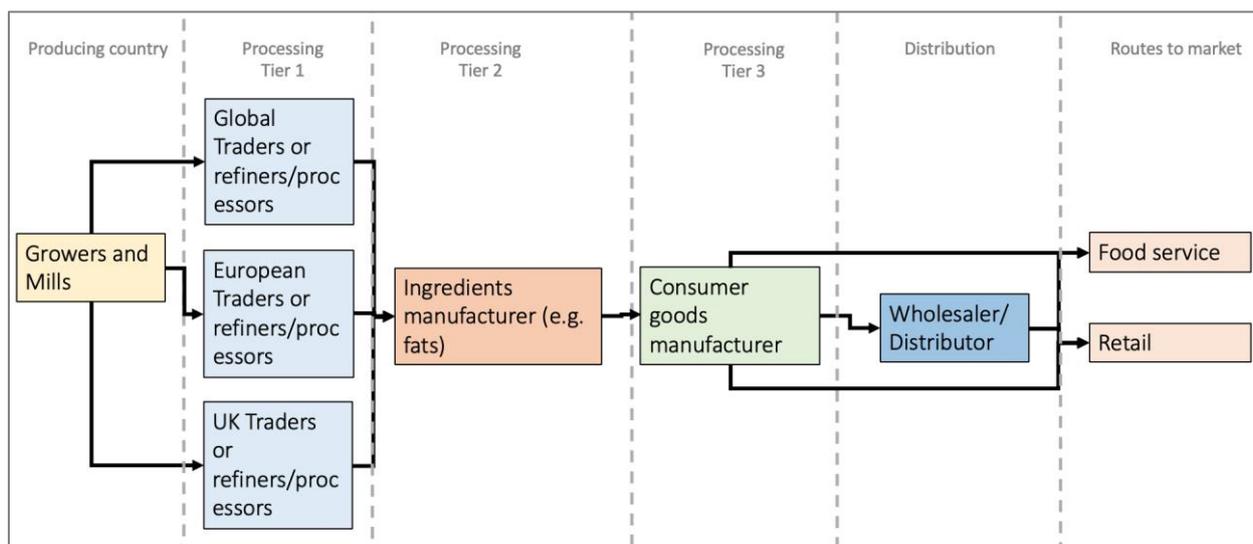
The UK Sustainable Palm Oil Initiative (SPOI) performs a wide range of activities to engage the private sector with sustainable palm oil, and has tracked the UK's progress in meeting the goals set out in the 2020 Amsterdam Commitment to source 100% sustainable palm oil (SPO) within Europe<sup>8</sup>. Their 2019 report (reference seven) would provide informative further reading for any stakeholder wishing to gain a greater depth of knowledge regarding the UK market.

In 2011, Defra estimated<sup>9</sup> that 75% of palm oil imports were used in the food industry, primarily in the manufacture of biscuits, snacks and margarines and spreads, and that 48% of all palm oil imported ended up in products sold via retail. According to UN Comtrade statistics, very little is re-exported, showing the majority ends up used within the country's borders. This level of food usage would tally with previously examined import data.

## Supply Chains

While supply chains for palm oil into the UK market are often complex, typically they can be broken down as displayed in figure 3. The route a product takes is governed by where it is refined and/or processed, and this can occur in the country of origin, Europe or the UK.

Figure 3 - Typical supply chains for palm oil entering the UK market



Source: Author

Crude therefore will enter the supply chain at Tier 1, whereas refined will enter at Tier 2. Major companies involved at each step will be examined in the next section, with all working with bulk quantities.

## 1.2. Market Structure and Key Players

As displayed in figure 3 of the previous section, depending on whether the exported product is refined or crude will depend on where in the supply chain is targeted. The higher the tier number, the more value addition is kept in Sierra Leone, however understandably refinement capacity appears to be limited at present.

A full list of leading companies involved at each step in the global palm oil supply chain can be found later in the report, but for the purposes of the report some of the major European and African contenders are outlined below.

At this stage it is important to note that because of the increasingly negative perception of palm oil to UK consumers, its use is limited to large-scale processing targeting lower-end retail as well as the food service industry, where its use is not so obvious. Palm oil is not available via retail in the same way as other vegetable oils for this very reason.

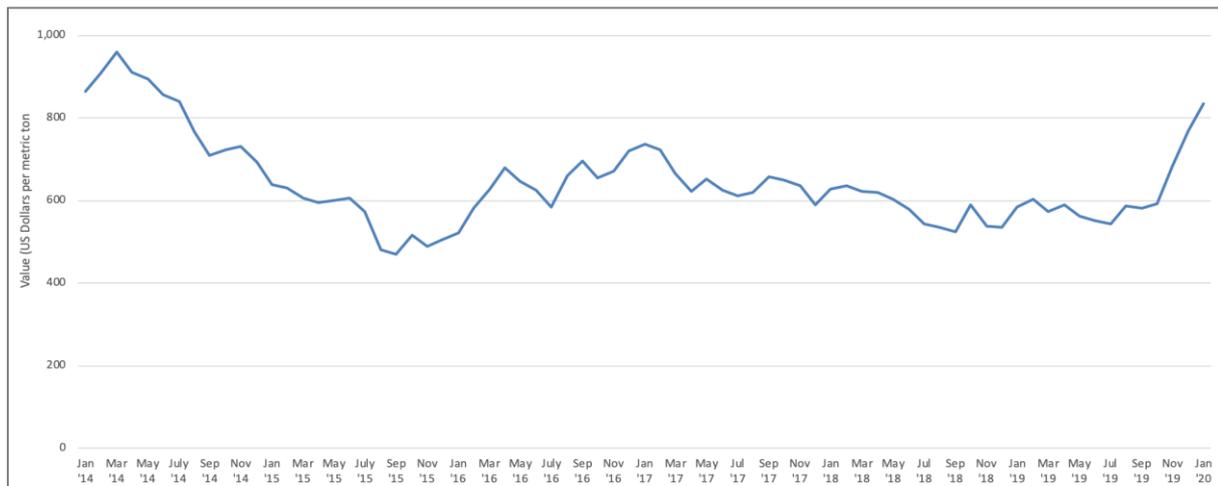
### 1. Traders and Refiners/Processors

There are four major refineries in the UK, and these are owned by New Britain Palm Oil and New Britain Oils respectively. While others operate in the space, these two entities dominate.

These can be accessed by any number of importers, traders and/or brokers outlined in table 1, but it should be noted that they usually source directly from South East Asia. Because of the global scale of the palm oil industry, it is dominated by a number of large multinational companies at each stage<sup>1</sup>.

Traded palm oil is subject to global price fluctuations, which while steady since 2016 spiked considerably in November 2019 as evidenced by figure 4. Palm oil prices could be severely hit by the coronavirus outbreak, with many production facilities being closed for large periods of time and consumption globally plummeting<sup>3</sup>.

Figure 4 - Monthly prices for palm oil from January 2014 to January 2020 (in US dollars per metric ton)



Source: World Bank<sup>4</sup>

Table 1 - Major EU and African palm oil traders & refiners

Name	Supply chain segment	HQ based in
Glencore Agriculture B.V.	Trader	Netherlands
AAK AB	Trader, refiner	Sweden
ENI SpA	Trader, refiner	Italy
LLC KRC EFKO-Kaskad	Trader, refiner	Russia
Louis Dreyfus Company	Trader, refiner	Netherlands
Archer Daniels Midlands Company	Trader, refiner	USA (EU presence)
Atama Plantation Sari	Trader, crusher, refiner, grower	Republic of Congo
Cargill Inc	Grower, crusher, refiner, trader	USA (EU presence)
SIFCA Group	Grower, crusher, refiner, trader	Côte D'Ivoire
Socfin Group S.A.	Grower, crusher, refiner, trader	Luxembourg
New Britain Palm Oil Ltd	Refiner	Papua New Guinea

Source: SPOTT<sup>2</sup>

## 2. Manufacturers (ingredients/consumer goods)

Should refinement be possible in Sierra Leone, there are further opportunities to enter the global supply chain at the manufacturing stage. In the UK as has already been seen, palm oil finds its way into a number of products, with manufacturers of all different sizes utilizing the produce as a cheap, bulky ingredient in both food and non-food sectors.

Table 2 outlines a number of these leading manufacturers based in the UK. These manufacturers will often require a good reason to change or add a new supplier, although if coronavirus impacts supply chains as

has been predicted<sup>2</sup>, this may present an opportunity for new producers entering the market via standard import/trading channels. Many will also partner with larger refineries and producers in order to maintain a constant and consistent supply.

Table 2 - Major EU and African palm oil traders & refiners

Name	Tons of Palm Oil used in 2019	Sector
Saputo Dairy	16,000	Dairy products
2 Sisters Food Group	18,000	Baked goods
Premier Foods Group	14,000	Various
Samworth Brothers	5,700	Savoury baked goods
Warburtons	1,500	Bread
Youngs Seafood	575	Processed fish products
Nomad Foods	2000	Frozen foods
Associated British Foods	63,000	Various, including ingredients
Froneri	12,500	Ice cream
Tayto Group	42	Crisps and snacks
Reckitt Benckiser Group	172,000	Cleaning products
KTC	unknown	Cooking ingredients

Source: WWF<sup>5</sup>

### 3. Food service & hospitality

While palm oil products enter retail as finished products, often palm is used heavily in food service as a cheaper vegetable oil. Larger companies such as Greggs, Whitbread, Compass Group etc. are all known to utilize palm oil in their cooking processes<sup>6</sup>, although they will be sourcing directly from importers/refiners on the mass market as has already been profiled.

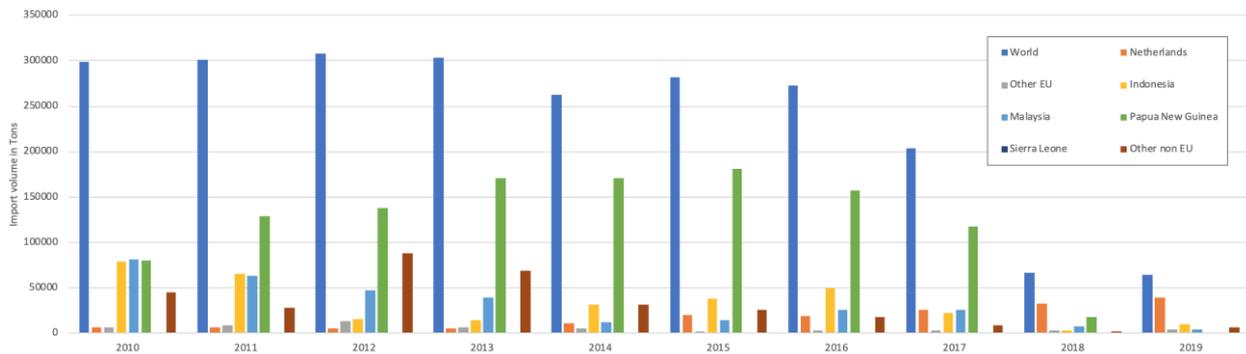
## 1.3. Points of Entry

Given conversations with stakeholders revealed a need to supply the UK market in bulk, it is possible to once again analyze UN Comtrade data for relevant HS codes which will allow analysis of the market and highlight any potential trends<sup>1</sup>.

### 151110 Crude palm oil

As displayed by figure 5 and shown in previous sections, imports of crude oil are in decline. But what is also evident from the graph is The Netherlands represents an increasingly important partner for secondary trade, which is in line with its position as the main entry point for a number of raw commodities into Europe. It will also be evident later that it coincides with a geographical shift in the refinement of palm oil, as it gradually moves to country of origin.

Figure 5 - UK imports of crude palm oil under HS 151110, 2010-2019 (in tons)



Source: UN Comtrade<sup>1</sup>

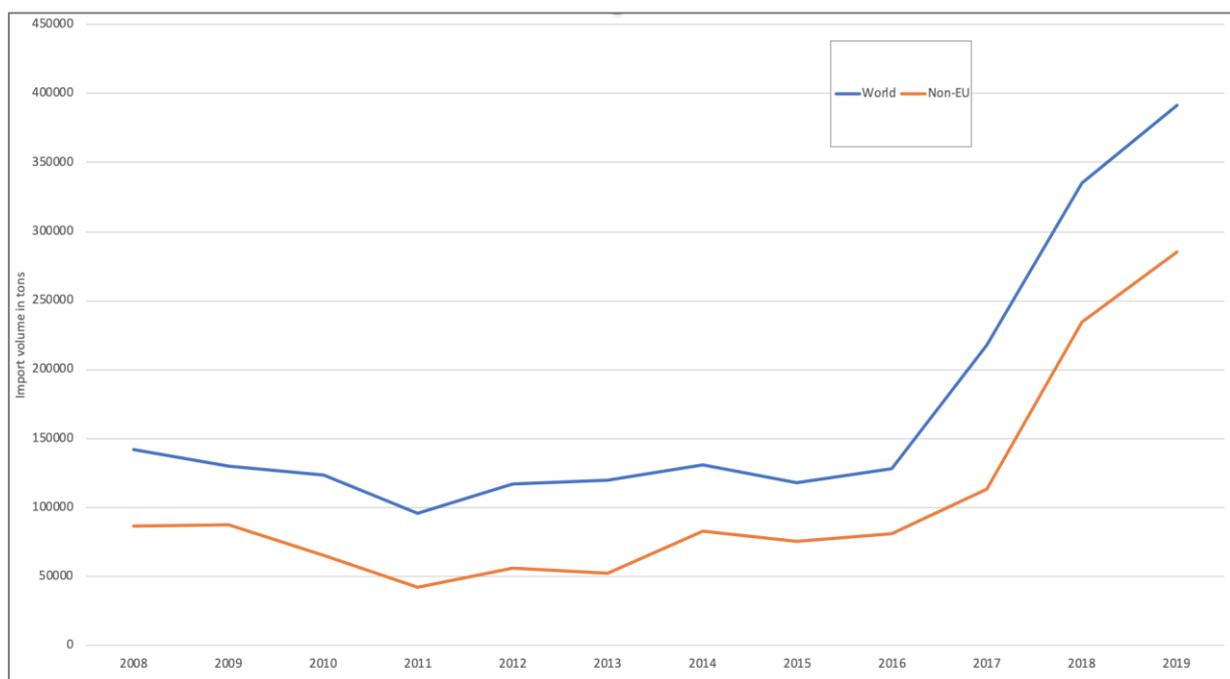
### 151190 Refined palm oil

As seen in section 3.1, as crude imports have dropped dramatically, refined imports have risen equally as sharply, showing a continued demand for the commodity, only in a more market-ready format.

Figure 6 shows just how quickly this supply of refined palm oil has risen, and how it is inextricably linked to increased refinement capacity in major palm oil producing countries such as Indonesia, Malaysia, and of late, Papua New Guinea.

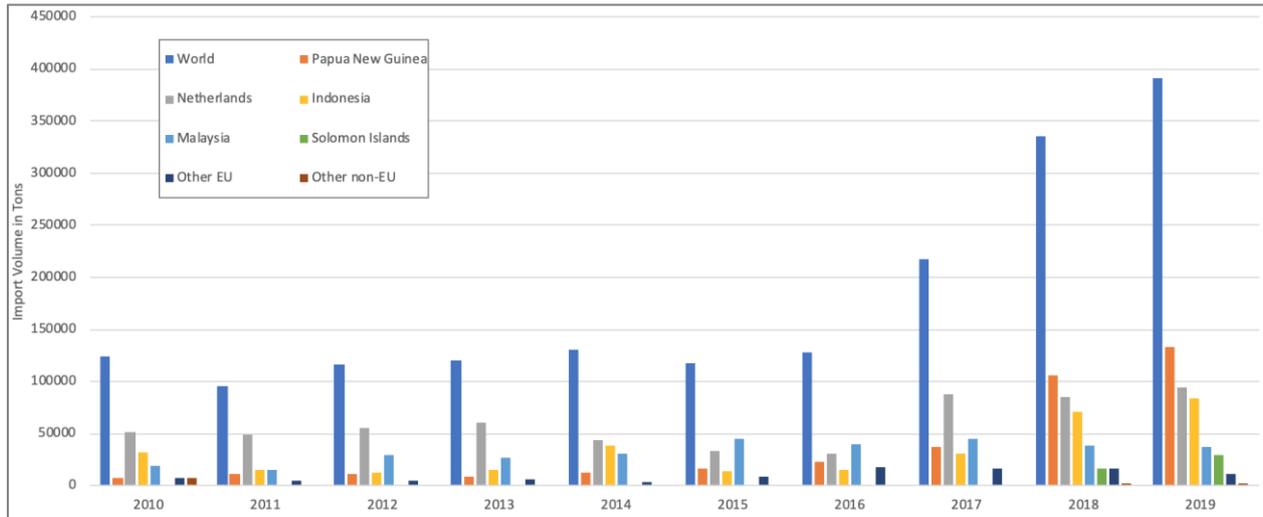
This is further displayed in figure 7, where an individual country breakdown can be analyzed. It shows significant market share for the three major producing, and now refining, countries, as well as the emergence of the Solomon Islands as a major refining nation in 2017. The Netherlands continues to be the major European trading partner for refined oil, and traders and importers there could potentially not only open up access to the UK, but Europe in general. The practicalities of this lie outside the scope of this report, but should be considered by producers as an option, as free trade agreements will be maintained with both parties<sup>2</sup>, although not necessarily between them following Brexit.

Figure 6 - UK Import volumes of refined palm oil under HS code 151190, in tons, 2009 - 2019



Source: UN Comtrade Statistics<sup>1</sup>

Figure 7 - UK Import volumes of refined palm oil under HS code 151190, 2009-2019 (in tons)



Source: UN Comtrade Statistics<sup>1</sup>

## 1.4. Consumer Preferences

Palm oil is an increasingly unpopular commodity in the eyes of British consumers, and has been in newspaper headlines for a number of years. A 2019 YouGov<sup>1</sup> poll found 41% of consumers perceived it as 'environmentally unfriendly', more than double the level of any other vegetable oil examined. Prominent welfare organizations such as the WWF<sup>2</sup> and Greenpeace<sup>3</sup> have continued to highlight its environmental dangers, and as a result education regarding the product occurs in the UK at a very young age and via various channels<sup>4</sup>.

A wealth of information now exists, particularly online, designed to educate increasingly ethical UK consumers. Many databases are available where one can check how much palm oil certain companies are using<sup>5,6</sup>, including how much is certified sustainable, a trend which has gathered pace since government legislation called for it almost a decade ago<sup>7</sup>.

Large producers and retailers, drawn in by palm oil's versatility as an ingredient, have for the most part failed to meet pledges to reduce use of oil that is not certified as sustainable in full<sup>8</sup>. But progress continues to be made, and this appears to be in response to increasing consumer awareness of sustainable certification, which although low, is improving<sup>1</sup>.

As a result smaller producers and brands have distanced themselves from the debate, removing themselves as a potential avenue for export. Many UK producers and manufacturers advertise that their product is 'palm oil free' or 'contains no palm oil' as a USP on the front of packaging, particularly at the high end<sup>9</sup>. This has become particularly apparent in the cosmetics industry, where sustainability fears are widespread.

The negative publicity surrounding palm oil isn't confined to the UK. An overwhelming majority of Europeans want new laws to ensure that the food they eat and the products they buy don't drive global deforestation<sup>10</sup>, showing a multi-country and regional movement that retailers, producers and manufacturers will have to respond to.

Any country therefore looking to increase their export of palm oil to the UK in the long term must be looking at sustainably certified production as a priority. A number of schemes exist, and will be explored in a later section, but given many of these schemes are already under the spotlight for failing to deliver change<sup>11</sup>, it is recommended to consider adopting the most high-profile, stringent methodology possible in a bid to counteract growing unrest with regards to use of the commodity, or entering into country-specific design of what sustainability in Sierra Leone looks like from a palm oil perspective. Maximizing transparency in the supply chain could be a key USP when looking to increase volume.

## 1.5. Market Trends and Positioning

With the UK increasingly trend focused, palm oil targeting a specific niche could provide an opportunity. These niches are however limited, with so much supply via bulk to processing and manufacturing industries over which the producer has little control.

### 1. Organic

Organic attracts a premium and the market has continued to grow year-on-year. The coronavirus has led to a spike in demand for certified produce<sup>1</sup>, and while certification is expensive and a long-term project, it should be a serious consideration for any current producer looking to export to Europe and/or the UK long term.

Organic palm oil is often traded by specialized (organic) importers or refineries in Europe. Examples are Brochenin (France), Henry Lamotte (Germany), ZOR, Tradin and DO-IT (Netherlands).

### 2. Sustainability/Ethically focused

Rainforest Alliance is increasingly popular with younger generations, and may offer an opportunity for palm oil from Sierra Leone, providing a USP. Palm oil is currently the only vegetable oil that can be certified by the Rainforest Alliance<sup>2</sup>, and sales of certified produce have been growing year on year in the UK<sup>3</sup>.

As has been seen in previous sections, sustainability certification is a must to enter the UK market, and will be profiled in a later section of the report.

### 3. World Foods

Many World Food importers have a supply of refined palm oil which is used to supply food service, as well as creating private label products such as baked goods. These distributors are growing in both number and size and therefore could be considered for an initial scoping project.

## 1.6. Packaging Recommendations

UK palm oil whether refined or crude, is almost exclusively sold in bulk.

Transportation, and therefore packaging, of palm oil depends on the size of the contract and the volumes being transported:

- Very large volumes of commodity palm oil are stored and transported in tank containers, which are typically at least 4000 litres, as shown in figure 8<sup>1</sup>.

Figure 8 - an example of a 20ft .ISO palm oil tank container



Source: Titan<sup>2</sup>

- Smaller volumes are transported in intermediate bulk containers (IBCs), steel drums or high-density polyethylene (HDPE) drums. An example can be seen in figure 9.

Figure 9 - An example of an intermediate bulk container, 1000L



Source: Tanks Direct<sup>3</sup>

Intermediate bulk containers come in various shapes and sizes, and are usually either metal or plastic. They must however be food grade, as in the example in figure 9, and are usually upwards of 500L storage capacity. For anything below 500L, steel or HDPE drums can be used, although transport of such capacities may be less economically viable.

## 1.7. Labelling considerations

As seen in the previous section, palm oil, whether crude or refined, will typically be supplied to the UK in bulk via either a tank container (4,000L) or intermediate bulk container (1,040L). The following will therefore need to be on the label written in English, unless specified by the buyer:

- Product name
- Manufacturers lot or batch code
- If the product is destined for use in food products
- Declaration of allergenic substances
- Name and address of exporter
- Products country of origin
- Shelf life: Best before date / use by date
- Net weight/volume in metric units
- Recommended storage conditions
- Organic (if relevant): Name/code of the inspection body and certification number

There are also legal specifics which must be met. Importers shipping to the UK must follow these legal requirements applicable to food ingredients and vegetable oils specifically:

- Traceability, hygiene and control.
- Contamination: Contamination by polycyclic aromatic hydrocarbons and/or benzo(a)pyrene is a common problem faced by exporters of palm oil. Make sure to address extra contamination risks by 3-MCPD esters and glycidyl esters.
- Erucic acid content: Not highly relevant for palm oil.

- Extraction solvents.
- Product composition: Do not add unauthorized ingredients such as Sudan 3 and 4; this is a common problem faced by red palm oil exporters.
- Labelling, including allergens and nutrition & health claims.
- Food contact materials.
- Food Safety Certification: In addition to HAACP, certificates such as [IFS](#) or [BRC](#) might be required by some buyers.
- Corporate responsibility and sustainable sourcing certification.

If these requirements are not met, the shipment can be refused entry. All reasons for refusal are logged, and can be accessed via the RASFF portal. Improper packaging and/or labelling is a common reason for refusing entry<sup>1</sup>.

### 1.8. Certification Analysis

The following outlines certifications and awards that are used by profiled brands and aligned with palm oil suppliers in general.

Table 3 - Examples of potential certification schemes

	<p><b>Soil Association</b></p> <p>As a UK organic certifier they regulate both domestic and international brands and have headquarters in Bristol, UK. One main difference between this and the EU mark below are unannounced annual audits of farmers / producers who use the certification. The logo is carried on 70% of organic products in the UK.</p>
	<p><b>EU Organic</b></p> <p>The EU standard for organic labelling is via the EU leaf. It is often used alongside the UK certifier logo such as the above. There is increasing concern of dual organic legislation becoming reality due to ongoing Brexit negotiations and questions of the use of this mark in the UK. Brands should have dual logo (UK/EU) inclusion until further notice.</p>
	<p><b>Fairtrade</b></p> <p>As a widely recognized symbol for good on the shelves, traditionally in natural product stores but increasingly in multiples, Fairtrade is seen as a powerful mark and particularly well recognized in the UK.</p>

	<p><b>Rainforest Alliance</b></p> <p>The Rainforest Alliance encourages businesses and consumers to support sustainable agriculture by sourcing or choosing products grown on certified farms. Permeating entry level products in supermarkets through to speciality products in higher end stores.</p>
	<p><b>RSPO</b></p> <p>A UK led a set of environmental and social criteria which companies must comply with in order to produce Certified Sustainable Palm Oil (CSPO). More than 4,000 members worldwide who represent all links along the palm oil supply chain. They have committed to produce, source and/or use sustainable palm oil certified by the RSPO.</p> <p>The industry leading standard.</p>
	<p><b>ISCC</b></p> <p>ISCC is a system for certifying the biomass and bioenergy industries, oriented towards the reduction of greenhouse gas emissions, sustainable land use, protection of the natural biosphere and social sustainability</p>
	<p><b>RSB</b></p> <p>Launched its global certification system in 2011 as a set of comprehensive sustainability criteria to encourage the sustainable production of biofuels and other biomaterials.</p>
	<p><b>Sustainable Agriculture Network (SAN)</b></p> <p>The Rainforest Alliance together with SAN, is a coalition of independent non-profit organizations that promote social and environmental sustainability which was formed in 1997. Together these two organizations operate a global system for certifying the sustainability of farms in a variety of sectors.</p>
	<p><b>High Carbon Stocks Approach (HCSA)</b></p> <p>The HCS Approach is a methodology designed to enable companies to put their no deforestation commitments into practice in their operations and supply chains.</p>

	<p><b>Carbon Trust</b></p> <p>The Carbon Trust Standard recognizes organizations that follow best practice in measuring, managing and reducing their environmental impact. An emerging certification.</p>
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### **Certification Impact Scale**

To further guide choices on certifications and awards, a separately commissioned corporate impact scale would be recommended and could assess the thoughts of B2B customers. A detailed comparison has however been carried out by Forest Peoples<sup>1</sup>. It should also be considered that Indonesia and Malaysia have set up their own sustainability certification boards, which could be a route taken by Sierra Leone as a point of difference.

## **1.9. Recommended Standards**

Depending on the buyer, palm oil will be required to adhere to certain international standards. One of these will be a sustainability certification, the likes of which have been profiled in the previous section.

ISO 9001 is another common requirement for buyers; it shows processing management and quality control that signifies continuity of product and supply.

Any exporter should also have a certificate of analysis available for their product, particularly given its use as a food stuff. Some other form of food safety accreditation will also be needed.

### **Standards, Certificates and Accreditations**

Requirements will vary according to customer, so not all would be required simultaneously;

- Certificate of Analysis
- Ocratoxin A Analysis
- GMO Statement
- Aflatoxins Analysis
- Contaminants Analysis 2019
- Low Cadmium Content
- Acrylamide Statement
- Contaminants Statement (EU)
- Gluten Free Declaration
- HACCP Statement
- UTZ
- Organic

- Vegan
- BRC - British Retail Consortium
- Certificate of Origin
- Material Safety & Data Sheet
- Product Specification (Nutritional Values)
- ISO 9001:2000 (Quality management system)

## 1.10. Recommended Customer Targets

Recommended customers very much depend on the product being exported. If crude palm oil, options are limited as only four refineries exist in the UK, and therefore any sales will be via established importers and brokers outlined in previous sections. Without a refiner there is little market for the product, and therefore established supply chains represent the only route to market.

For refined, there are considerably more options, and contact can be made with each entity individually or via a sales agent should one be considered. Table 4 outlines a number of prospective customers who operate in the food oil sector.

Table 4 - A list of recommended customers working in oil

Import Trading Companies	Distributors & Wholesalers
SOP International Limited	AAK International
Alivini Co Ltd	Borderfields
Augustus Oils Ltd	Duarka Foods Limited
Brindisa Ltd	Edicos Ltd
Capol (UK) Ltd	The Groovy Food Company
Cobell Ltd	Guinness Chemical Products Ltd
Day Break Foods LLP	KTC (Edibles) Ltd
Delicatezza	M & S Catering Supplies Ltd
ELC (UK) Ltd	NHR Organic Oils
F D Copeland & Sons Ltd	Olleco
FMX Food Merchants	Peregrine Trading Ltd
Food Co	St Mickalos
Fratelli Camisa Ltd	HQ Foods Ltd
Gerald McDonald & Co Ltd	Reids Foodservice Ltd

Kerfoot Packed Oils	Woods Foodservice Ltd
MAP Trading Ltd	
Oil in the Raw	
Organic Real Foods	
Progressive Food Company Ltd	
RAPS UK Ltd	
Reids Foodservice Ltd	
Terra Rossa Jordan Ltd	
Treatt plc	
Wessex Foodbrokers Ltd	
Wilson & Mansfield Limited	

Source: The Grocer Directory<sup>1</sup>

There may also be scope to work with world food importers and/or direct to consumer websites specifically targeting the African niche and diaspora. Given they were outlined in Part 1 of this report, the authors felt no requirement to reproduce details here.

## 1.11. Initial Recommendations

Based on research, the UK palm oil market is a difficult one to enter in anything other than bulk, and this is particularly true if exporting crude where import volumes are falling dramatically. There are very few low-volume, easy access targets and the majority of usage flows through defined supply chains that are dominated by larger companies, brokers and importers the likes of which have been outlined in this report. Despite this, the following suggestions can be made:

### 1. Explore refining partners.

The market for crude palm oil entering the UK is declining at a rapid rate, as refining moves to countries of origin. There are only four refineries in the UK, meaning a very small market place dominated by large entities who have established supply chains. Any sales efforts will be lengthy and ultimately may prove unfruitful as pricing will unlikely be competitive due to economies of scale. Investment into Sierra Leonean refinement would ultimately be the greatest way to provide value addition.

### 2. If no refining partner can be found, explore The Netherlands.

The Netherlands has a considerable presence when it comes to refining palm oil, and offers access to the UK as well as Europe. Longer term however, this may change as Brexit agreements may prevent free trade between the two countries. Any long-term, large volume partnership negotiation would therefore be advised to factor in the results of negotiations.

### 3. If exporting refined, liquid volumes are most desirable.

As has been explored, import volumes of liquid fractions destined for use in the food industry are growing at the sharpest rate. Other, more mature markets exist for solid fractions, while outside of refinement there is little other value addition potential.

#### **4. Sustainability should guide both short and long-term plans.**

Western consumers are increasingly educated on the environmental implications of palm oil consumption. Government legislation has called for sustainable produce, and commitments to import 100% sustainable produce are coming to fruition. A plethora of certification schemes exist, the merits of which will be explored in a later section, but Roundtable of Sustainable Palm Oil is the industry-led standard for sustainable palm oil.

#### **5. Targeting world food distributors who produce their own goods may offer potential.**

Many world food distributors supply food service outlets and also produce their own baked and private-label goods. Targeting these with refined produce to assess demand may be a worthwhile short-term objective that will inform a longer-term approach.

#### **6. Food use should be prioritized.**

The EU's RED II directive will see unsustainable palm oil phased out from the European biofuels market by 2030. This initiative put a greater demand on sustainability, but even when sustainably certified, palm oil in particular may struggle to meet the criteria.

Meanwhile, despite the majority of Sierra Leonean palm oil being used to manufacture soap<sup>2</sup>, given the status of palm oil in the United Kingdom this is not a recommended long term strategy as a market to enter, and is in the professional opinion of the authors that such products will be more suitable to domestic and regional markets. When palm oil is used in UK cosmetics, it is mainly governed by the larger cosmetic companies and corporations<sup>3</sup> who buy in bulk from recognized sources and process according to their own methods. In smaller markets, which are far easier to enter, once again being palm oil free is a requisite for many consumers, and is often a fact that is advertised by the manufacturers.

## PART 2: UK PALM OIL MARKET ENTRY STRATEGIES

### 2.1. Stakeholder perspectives

Many of the general considerations regarding the economics of Sierra Leone were covered in section 2.2, and are equally as relevant here.

Understanding how the palm oil sits within the county's overall economy is however an important consideration when discussing entry into the export market, and more specifically the UK.

#### **Palm oil import/export.**

2019 palm oil exports from Sierra Leone totaled \$5.7M, with just \$123,000 making it to the United Kingdom<sup>1</sup>. However at the same time, imports totaled over \$14M, almost exclusively from Indonesia and Malaysia, indicating a trade imbalance of over \$8M, equivalent to 14,500 tons. This data would indicate that domestic demand for palm oil outweighs production capabilities, but the headline numbers do not tell the full story.

Import of crude palm oil has dropped in recent years, while export has risen significantly to total almost \$5M in 2019, up from almost zero in 2014, while export of refined has also grown, but at a much slower rate with a 2019 total of less than \$1M. Import is now attributable almost exclusively to refined palm oil, which in 2019 accounted for over 90% of palm oil imports, although it must be noted this could be an anomaly as the first year this had been seen<sup>1</sup>. This would suggest that refinement prevents a bottleneck, not only to production but also to value addition. Given the small level of refinement options available in the UK, this could be a large potential stumbling block to accessing significant proportions of UK trade.

According to European Commission research, palm oil is one of the most important agricultural commodities in Sierra Leone and has recently seen an increase in foreign and private investments in the sector<sup>2</sup>. Production of the commodity has been steadily rising for many years, reaching 71,000 tons in 2018<sup>3</sup>.

Palm oil is produced almost everywhere in Sierra Leone, but most of the production occurs in high rainfall regions, in the southern and eastern parts of the country. It is mostly produced at an artisanal scale, which would limit export potential due to economies of scale. There are currently three main industrial palm oil producers, with Socfin the most high profile entity<sup>4</sup>.

By the same research listed above, demand for palm oil in Sierra Leone is fueled by two main industries: soap and food consumption<sup>2</sup>, with the majority of domestic product being used for soap, and the shortfall in food supplies therefore made up by imports.

As seen in the previous section, a low market for palm oil soap in the UK, even of an artisanal quality (i.e. red), could also provide barriers to increasing trade outside of niche markets targeting diaspora with products. A strong demand in local markets also persists, which could be more lucrative, particularly in the short term.

#### **Individual conversations**

##### **CAC Holdings**

One particularly insightful conversation with a large processor and exporter of palm oil revealed that bulk palm oil was being sent to the UK, to specific African importers and wholesalers and this conversation was mentioned previously as they were also exporting cassava, at an approximate supply of two containers per month across both commodities. There was considerable interest in increasing UK presence, and they required further market insight to understand where investment would be required to achieve this.

##### **Solidaridad Network**

The programme manager for Sierra Leone spoke at length regarding the challenges small-hold farmers face in Sierra Leone, and how the Solidaridad Network was assisting in supporting them to access what was described as a huge market via a multitude of initiatives.

The main activities revolved around intervening with small holders involved in oil palm production; providing training and building a small business ecosystem where farmers can access support and necessary supplies; seedlings, tools and equipment, necessary for farming and production.

Responsible investment was also being actively encouraged in order to improve livelihoods for small holder farmers, while our interviewee was also leading a Government-backed working group that was going through a national interpretation process for RSPO standards. The ultimate goal was to adapt the rules to create their own set of standards, and this was currently in process alongside members of the private sector.

There are sustainability standards in place; for instance, Gold Tree is producing organic oil, while even SocFin are working with their farmers. Our contact was clear however that as a country Sierra Leone had not yet completely processed what was required in terms of sustainability, and that it was a relatively new term that needed explaining to small holders.

Refinement provided a bottleneck and a severe block on reaching the export market. Smallholders would either go through traditional processing themselves for sale on the local market, or else would sell to the larger refineries for processing. Either way, such a lack of market ultimately prevented them from being remunerated sufficiently for their work. There was a large market exporting to Guinea for use in the soap industry, but it was of our stakeholder's opinion that much of this was 'red' and not suitable for export.

The future was touted as bright for palm oil farmers; many were interested in oil palm production in recent years in no small part thanks to improved seeds.

There was belief that that market is huge, even locally, however many were reliant on secondary processors to carry out much of the value addition.

On the ground, farmers required more improvement in seedlings and varieties to gain higher yields, while many trees in the country were old, and therefore production level was beginning to decrease. Investment was required to re-plant and rotate crops.

### Limitations

Conversations with palm oil stakeholders have been limited due to a number of factors, in particular a lack of available contacts and individual responses from recommended stakeholders. All insight has therefore been based on research and the two conversations outlined above.

## 2.2. SWOT Analysis

This analysis is based on capacity considerations identified during initial calls with stakeholders and their relation to the recommendations in the previous pages.

MARKET (STRENGTHS VS WEAKNESSES)	
<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>▪ <b>Story:</b> In the UK, stories sell and a traceable, ethical trend-based product with clear differentiation could captivate.</li> <li>▪ <b>Organic:</b> Gold Tree represents an industry leader in this niche market.</li> <li>▪ <b>Provenance:</b> Being proudly Sierra Leonean could offer a USP and/or point of difference.</li> <li>▪ <b>Direct trade:</b> Sierra Leone was one of the first countries to sign a free trade agreement with the UK when Brexit was announced.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>▪ <b>Competition:</b> Exports from Indonesia, Malaysia, Papua New Guinea and Solomon Isles dominate and their production capacity is immense compared to Sierra Leone.</li> <li>▪ <b>Price point:</b> In an increasingly commercial marketplace any lack of scale could lead to pricing difficulties.</li> <li>▪ <b>High-volume, established supply chains:</b> These must be broken which could take time and effort.</li> </ul>

<ul style="list-style-type: none"> <li>▪ <b>Existing supply chain:</b> palm oil is already entering the UK market in bulk from Sierra Leone.</li> <li>▪ <b>Large market:</b> palm oil usage continues to stay steady in the UK, despite negative PR.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Crude:</b> UK imports of crude palm oil are plummeting, and therefore refinement partners may need to be explored before entering the UK market. Options both domestically and in the UK are limited, meaning secondary trade may be required.</li> <li>▪ <b>Domestic supply:</b> Sierra Leone currently has a considerable deficit</li> <li>▪ Value add - palm oil soap is not desirable in the UK unless working through high volume, mainstream channels, while biofuel usage is dwindling due to increased regulation</li> <li>▪ <b>Fluctuating prices:</b> due to the volatility of the market, palm oil prices are subject to global price fluctuations.</li> <li>▪ <b>Negative PR:</b> Palm oil is increasingly painted as an ecological disaster in the UK, and is therefore boycotted by a number of consumers, particularly at the high end.</li> </ul>
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PRODUCTION (STRENGTHS VS WEAKNESSES)	
<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>▪ <b>Experienced:</b> Company owners have considerable experience in the market, as well as in processing which gives the organizations considerable strength.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>▪ <b>Production capability unknown:</b> Initial conversations revealed little about production of crude, while refinement of export-ready product was limited to a handful of corporations.</li> <li>▪ <b>Limited history:</b> buyers will be wary of being the first to import from a particular country knowing there may be supply issues. It will be down to the seller to reassure them, and with a lack of experience operating in the UK market this may be difficult at first.</li> <li>▪ <b>Certified sustainability:</b> no certifications were identified via interviewed stakeholders. This will be a requisite of entering the modern export market and therefore essential to growth.</li> </ul> <p><b>Ageing trees:</b> yields dropping as a result, and investment is required to replenish.</p>

MARKET (OPPORTUNITIES VS THREATS)	
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>▪ <b>Ethical/sustainable:</b> Certification is now a must to enter the UK market, but there is</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>▪ <b>Competition - global:</b> larger producing nations such as Papua New Guinea and Indonesia are</li> </ul>

<p>opportunity for Sierra Leone to become a market leader and thus carve out its own USP. Continued work on RSPO standards should be prioritized.</p> <ul style="list-style-type: none"> <li>▪ <b>Niche:</b> World Food importers offer an obvious, growing route to market that has already been partially permeated.</li> <li>▪ <b>Supply chain transparency:</b> UK consumers are increasingly educated about exploitation in the supply chain, with direct trade models increasingly relevant. With palm oil this is even more apparent, with certifications.</li> <li>▪ <b>Domestic and regional:</b> with so much of Sierra Leonean palm oil being used for soap, other markets where such products are in greater demand may represent an opportunity.</li> <li>▪ <b>Brexit:</b> Trade deals already in place may provide Sierra Leonean with an overnight competitive advantage compared to other, more established exporting nations.</li> <li>▪ <b>Refinement:</b> Investment into refining potential may expand the potential UK market, as exports of this variety grow quickly.</li> </ul>	<p>established, operating on higher volumes and lower price points thanks to considerable economies of scale. A niche must be carved to compete.</p> <ul style="list-style-type: none"> <li>▪ <b>Competition – domestic:</b> With soap such a dominant use for domestic palm, there is clearly demand from this market that is not mirrored in the UK.</li> <li>▪ <b>Regulation:</b> Post Brexit and coronavirus, new trade partnerships and certifications present opportunity and threat to all brands and producers. This will be discussed separately towards the end of the report.</li> <li>▪ <b>Changing preferences:</b> consumers are increasingly aware of the environmental damage that palm oil production brings about, and an increasingly black and white view is being taken by European governments.</li> <li>▪ <b>Continuing decrease of crude imports:</b> given the lack of refinement options both in the UK and Sierra Leone, a bottleneck is in place that could potentially become increasingly prohibitive to trade relations.</li> </ul>
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## 2.3. Market Threats

### Competition - global

Palm oil is a bulk product sold in high volumes that is never supplied directly to consumers or via retail in the UK. As such there are very few high end or niche opportunities that offer an accessible route to market, both in food and non-food. All sales will therefore need to be done via importers, traders and brokers, all of which are also dealing with more established producing nations such as Indonesia and Malaysia as has already been observed.

### Competition - domestic

As previously mentioned, Sierra Leone has a shortfall when it comes to palm oil trade. As such any export strategy will need to be carefully considered, as the domestic market may present a greater opportunity, particularly when it comes to non-food usage and value-add products.

### Regulation

While Sierra Leone has an existing post-Brexit agreement in place, the effects of Brexit, along with the ongoing impact of the coronavirus pandemic, represent a threat to all businesses and producers worldwide. Scenarios will be explored further later in the report.

### Changing preferences

As already noted, UK consumers view palm oil in a negative light. While demand for refined product is increasing through mass market production channels both food and non-food, it comes at the expense of crude as the UK imports more finished product. Continued negative PR will likely see even more pressure on retailers and food service outlets to adopt policies on palm oil usage, with many already having them in

place. The UK Government already has sustainability measures in place, but many consumers indicate that this is not enough. There is a danger, long term, that demand for palm oil will decrease, both via food and non-food.

### Lack of options for crude

Due to just four refineries existing for palm oil in the UK and three in Sierra Leone, there is a distinct lack of options outside of this supply chain which starts via traditional importers and brokers already profiled.

## 2.4. Import Laws and considerations

- Duty rates in the UK vary depending on the specific product which needs checking on a product by product basis. Applicable countries with trade agreements with the UK may have a tariff preference duty rate of 0%, which is the case for Sierra Leone which signed a post-Brexit deal back in 2017.
- VAT rates in the UK vary depending on the specific product which needs checking on a product by product basis. Example for unprocessed goods such as palm oil - importing from outside the EU is subject to a third country duty of 3.8% unless subject to other measures. VAT is 0%-20% depending on intended use (food / nonfood).
- Duty rates vary depending on origin / EPAs however examples such as Sierra Leone carry 0% duty under current EU tariff preference schemes (GSP R 12/978).
- Organic - Importing under the EU's TRACES NT system requires coordination with a certifier and handling agent in the country of origin, following specific guidance and logging certificates on the system under a closely monitored process which is then checked and signed off by authorities on entry to the UK.
- Brexit - As ongoing negotiations continue, the above are subject to change as the UK leaves the European Union. Current EU laws will remain in place until trade negotiations end on the 31st December 2020. Following this, efforts are being made to replicate policies to ensure a smooth transition.

## 2.5. Sales Considerations

The UK can present a busy and complex landscape, and buyers can be unresponsive without a considered approach. While a UK sales agent with existing contacts is recommended, they can be expensive and in the case of palm oil will be working on a very small number of leads with limited work. Given the interest of the WACOMP Sierra Leone programme also on the cassava crop, a combined palm oil/cassava strategy could be possible in the short term however, as both commodities look to access the World Food niche.

When contacting UK buyers the following points should be taken into consideration:

- **Show patience.** UK buyers are busy people, and doors can take time to open. Aggressive sales are ineffective and detrimental, and any conceived pressuring will lead to a swift end in negotiations with little or no notification of this. A sensitive sales approach is required, where the buyer is made to feel in control at all times.
- **Use email.** UK buyers prefer communicating by email in general. Phone calls are not recommended without an appointment, unless this is a pre-agreed approach to business. Try to respond within 24hours, but do not necessarily expect that in return. A follow up after 3-4 days is a common approach if communication has flattened out.
- **Know your buyer.** This works from two angles:

1. First, be clear and transparent. Do they want your product? Does it fit their sourcing policy? Is it better than what they already buy / sell? What is your USP? Having a short, prepared sales document will show you are prepared as an exporter and will win the trust of the buyer.
  2. Second, respond to specific requests. Do they need a particular packaging size? Do they have any questions about pricing? Do they want transparency with regards to sourcing? Can they import direct? Once again being clear, concise and transparent is key.
- **Be consistent.** In terms of quality of product, responsiveness and production timescales, consistency is incredibly important in building trust and will allow relationships to evolve into long-term partnerships.
  - **Be punctual.** The UK is traditionally very unsympathetic to lateness and no-shows. If unable to make a call/meet, let all parties know well in advance. If connectivity is an issue, ensure this is checked well ahead of time and have back up plans in place.
  - **Be aware.** Timescales can be lengthy and negotiations can involve considerable back and forth. Sufficient time expectations are required. For a smaller importer/wholesaler this can be a lead time of a few months, but for a larger multiple this may take years, and producers should be prepared to satisfy a number of requirements to win the contract.
  - **Start small.** Targeting the largest customers first is often the worst strategy for new exporters. A sustained growth model from small to large customers will allow a supply chain to be built that will cope with the demands of multiples.
  - **Avoid food service, for now.** The UK food service industry is currently completely closed due to coronavirus, meaning increased load on retail. There has been some indication when UK lockdown is likely to be lifted, however it is still unclear when various stages will occur. This should be taken into account when planning routes to market and potential sales strategies.
  - **Display certifications clearly at point of sale.** Organic/sustainable - can it be proved? Different suppliers will have individual requirements with regards to certifications. Being upfront about this will allow you to bring negotiations to a close quickly if not yet able to meet them, and to get back in touch once you are.
  - **Understand pricing; both yours and theirs.**

In general, each entity involved in the supply chain will require a fee. Brokers usually command approximately 0.5 to 2%, or a fixed price per ton, while importers will work on different commissions depending on whether the oil is simply being forwarded (5–10%), or whether they have to re-sell specific quantities (10–20%). Refiners charge a fixed amount per ton of oil refined, and this will need to be negotiated individually.

The margins charged by other industry players such as food manufacturers, bottlers and retailers will depend greatly on the segmentation and added value of the final product, for example whether it has an organic certification. For reference, organic palm oil usually achieves prices up to 50% higher than conventional, which is far higher than in many other commodities.

## 2.6. Market Access and Penetration

Palm oil represents a difficult market to enter for small scale producers. For producers of crude, there is a necessity to refine that limits market access options to a handful of refineries that are accessed by a small number of brokers and importers that can be contacted directly. Otherwise, smallholders are forced to operate on the local market or deal with one of the large refineries within the country.

Negotiations with these importers/brokers will occur in advance, such that they have the opportunity to sell produce before it arrives in the country.

While processing could be done in The Netherlands or Germany, Brexit negotiations provide an uncertainty with regards to end-pricing, as increased tariffs could make any entry via Europe more expensive.

For refined, the initial recommended route would be into World Food distributors, where scale of demand could be ascertained, a niche built and volume steadily increased via existing supply chains. The demand via non-food is limited, and therefore it is not recommended. As before, a UK sales agent would be recommended to approach potential customers, explain the benefits of the product and compare with existing supply, negotiate pricing, supply samples and literature, sign up customers and arrange invoicing, coordinate delivery and provide ongoing support to clients. It is, however, a long process to sign up customers that can take several years to mature.

The benefit of such a campaign would be that it could be done in tandem with recommendations made in section 2.9, and shipments could potentially be shared, lowering costs from the outset.

In the long term, supplying the UK market with sustainable, refined palm oil is the only option, and most likely this will be targeted for consumption. The requirement for RSPO certification is ever more pressing, and the authors predict that within three to five years 100% of imports will be sustainable, only slightly later than the Government's 2020 target. Conversations could be started now while certification is pursued, as breaking into existing supply chains can be a lengthy process.

Organic remains a viable niche for palm oil, as does Rainforest Alliance certification which could open up a new market in consumer processed goods as this label grows in popularity amongst UK consumers. Many high end and natural food manufacturers do use palm oil, but ensure that it is responsibly sourced so as not to damage their reputation.

## 2.7. Conclusions and recommendations

The UK palm oil market is mature and dominated by a handful of key entities at each stage in the supply chain. Much like the role of the roaster in the coffee industry, refineries dictate supply chains and a cost effective refining partner must be found as a priority if not already available. While there are some refineries already in Sierra Leone, they are operated by large corporations who do not necessarily require export support. Local producers doing their own refinement are almost exclusively doing so for the local market, according to calls with stakeholders.

Therefore, increasing refinement options should be a priority if the export market is to be explored. The reasons behind this first conclusion are multiple. Firstly, UK imports of crude palm oil have decreased drastically since 2017, while imports of refined products have boomed to leave overall import volumes reasonably consistent. Looking at the major palm oil economies as examples, over the past five years significant investment has gone into refinement in country of origin in order to add value, decrease overall costs, and allow further control of the supply chain. While demand for palm oil is not growing, it is therefore changing. Demand for non-food palm in the UK is limited, while consumer confidence in the product is at an all-time low. Expanding the potential for value addition via refinement will therefore be key to expansion.

Therefore the second conclusion/recommendation is that RSPO certification is pursued and prioritized as a minimum. The UK government set ambitious targets to import 100% sustainable palm oil by 2020, and while these haven't been fully met in all industries, there has been significant progress that is expected to continue. Any non-certified produce may have a short-term place, but it will be a much more difficult sale and will not add long-term value. While conversations have revealed this to be ongoing, it should be prioritized in the professional opinions of the authors in order to maintain access to evolving European markets.

Thirdly, Sierra Leonean palm oil will need to find a USP to compete with existing supply chains. It is unlikely, given volumes, that it will be competitive on price unless going via large processors already profile. There may be further opportunity in organic beyond what is already in place, but also in increased sustainability and multi-faceted certifications, potentially positioning Sierra Leonean palm oil as a world leader in sustainability. While possible, barriers will be investment in the short-term and the threat of a changing market in the long term.

Off the back of recommendation three, African and World Food distributors, many of whom import smaller quantities of refined palm for distribution to food service, as well as manufacturers, offer a short-term and accessible niche. While very different products, there is potential for a multi-product sales campaign on a

B2B level which will allow chance for medium-to-longer term investment into infrastructure and certification which will allow access to the global mass market.

All of these recommendations require a long term plan and approach to increasing volumes. The European market, both for food and non-food will become inaccessible without the correct certifications within the next five years, and these therefore should be prioritized if not already in motion. As a relatively new exporter of palm oil, Sierra Leone will need time to build volume and reputation before accessing the larger volumes that will allow further investment. There may also be a potential requirement to address the current domestic shortfall.

## PART 3: JOINT CONSIDERATIONS

### 3.1. Brexit and Coronavirus

#### 1. Brexit

As previously mentioned, Brexit officially occurred on the 31st January 2020, with the UK & EU entering a trade negotiation phase until the end of the year. As of the 1st January 2021, the UK will become a legal entity in its own right, able to make its own laws and trade freely with the rest of the world. In the short term, the UK is expected to adopt all current EU legislation before altering in a phased approach, a timeline for which has not yet been set out. One thing is certain however - politicians would be loath to disrupt supply chains significantly and so many businesses will be hoping they take steps to minimize the impact.

The majority of businesses will be looking at the next eight months with some concern. The negotiations are aimed at reaching a trade agreement, with many expecting a low alignment outcome. Should negotiations prove particularly unsuccessful, a no-deal Brexit would occur, and the effect on trade with the EU in particular could be significant. Tariffs will apply instantly, and this is likely to have a significant impact on the secondary trade done with the continent. As shown earlier, many large businesses are already planning for this scenario by shifting production to lower-labor markets outside of the EU.

There are also significant implications for Sierra Leone, which will retain tariff-free access to UK markets after the UK leaves the EU. In the immediate aftermath of Brexit the country could gain a competitive advantage price-wise, particularly in the palm oil market, should other leading palm oil suppliers such as Indonesia not continue under current EU agreements. With the coronavirus pandemic taking a considerable proportion of the Government's effort, trade negotiations have been delayed, and now a deal with the EU is taking immediate priority<sup>1</sup>. Commonwealth countries have been prioritized therefore, as the recent deal with Australia shows<sup>2</sup>. Economics dictates that imports will look for the cheapest and most efficient supply chains.

The wider effects on the UK economy have also been widely postulated but given the level of uncertainty it is difficult to predict any outcomes. In light of the coronavirus outbreak there have been widespread reports of an extension to the negotiations, reports welcomed by the EU, however these have been swiftly squashed by Boris Johnson and the UK Government.

With so much uncertainty then, Brexit offers a multi-faceted threat. Firstly, import regulations may well change as laws are reviewed and while tariffs will not be imposed on Sierra Leonean produce, changes to legislation could have a significant impact on direct export potential. While this is still an unknown variable it is difficult to postulate, however the review of any outcome will need to be factored into planning, with regular reviews of legislation scheduled and an agile approach required to factors such as certification and labelling.

Second, unknown outcomes have been causing exchange rates to fluctuate dramatically thanks to volatility in the markets. Uncertainty always delivers significant detriment to any economy, and over the past 12 months the pound has fluctuated enormously against both the Euro and the Dollar, as displayed in table 5.

Table 5 - Twelve-month extremes for GBP vs. EUR & USD, as of 28/4/2020

Pound vs.	High (date)	Low (date)
Euro	1.2044 (18/2/20)	1.0602 (18/3/20)
Dollar	1.3335 (16/12/19)	1.1479 (19/3/20)

Source: WebFG via BBC<sup>3</sup>

Staying with the economy, a recession is a very real threat in the current climate, with many sources postulating that<sup>4</sup>. Combined with the shrinkage caused by the coronavirus outbreak, Brexit could have an unprecedented effect on jobs, growth and thus consumer spending. In previous recessions, luxury industries have been hardest hit, which would see the already struggling food service industry falter far more significantly than retail.

Another issue Brexit poses, particularly to the food service industry, is that of labor. A low alignment Brexit would see free movement ended, which could put considerable strain on the food service industry in particular which is heavily reliant on foreign workers.

All things considered, operating 'in house' where possible and shortening the supply chain will avoid any future interruptions. Setting up direct supply chains with the UK is recommended in order to minimize the border crossings that could bring with them additional tariffs and taxes.

Finally, any high volume supply chains should only be confirmed once more clarity has been delivered regarding Brexit. Any interruption to free trade in any capacity is likely to have far-reaching implications that cannot all be predicted, and it is therefore less fluctuating processes such as packaging and certification schemes that should be prioritized.

## 2. Coronavirus

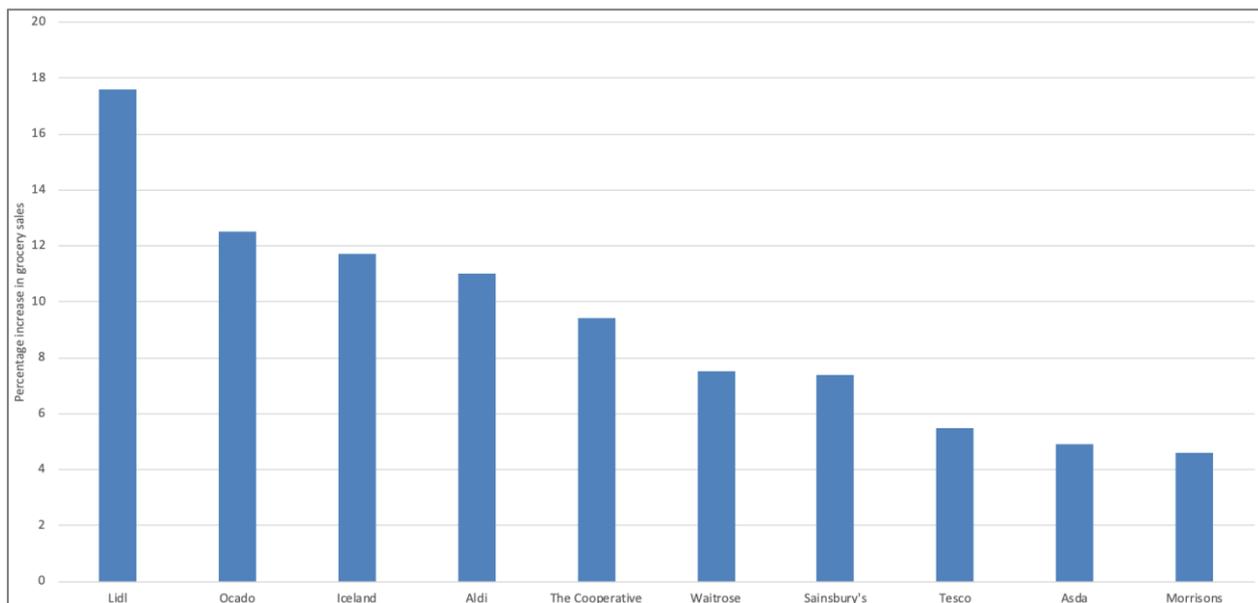
The coronavirus has had the most significant impact on the UK economy since the Second World War. Unprecedented social restrictions, including the closure of all pubs, cafes and restaurants, came into place on the 23rd March 2020, and as of the end of June 2020 were being eased but by no means ended. This is a situation mirrored in many other countries around the world, with world leaders warning that a second spike in infection rates could be disastrous should the measures be lifted too soon.

In Wuhan, China, where the outbreak began, a 'new normal' has been put in place where movement is restricted by a mobile app which designates a risk category. Such schemes are possible and being investigated in the UK, but are much more unlikely to become reality due to fears of cost, privacy violations and lack of uptake that have already seen the demise of a contact tracing app designed to track the outbreak.

As the UK has now entered a downturn in deaths caused by the first phase of the virus, the uncertainty shows no signs of abating. The effect on the food service industry has been immense, while retail, and in particular grocery retail, has seen a surge in demand which has boosted turnover, as detailed in figure 10.

In terms of overall picture, the Office for Budget Responsibility has warned that the coronavirus crisis could cause a 35% fall in gross domestic product this spring<sup>4</sup>. The damage to the economy escalates with increasing length of lockdown measures, meaning this estimate could be conservative. As many as two million job losses are expected, meaning that even when lockdown measures are lifted, consumer spending could still be heavily impacted.

Figure 10 - UK: COVID-19 impact on grocery sales by store in the 12 weeks ending 22<sup>nd</sup> March 2020



Source: Kantar Worldpanel<sup>5</sup>

A recent release by Mintel<sup>6</sup> shows what a significant effect the Coronavirus outbreak is having on UK shopping habits. In a short space of time online shopping has seen a dramatic boost with the number of consumers who say they've increased their online shopping rising to 36%, with the online grocery market expected to grow 33% in 2020 after many years of slow growth. This is backed up by data from Kantar Worldpanel, which shows Ocado, the UK's leading online supermarket, experiencing considerable growth in sales during the outbreak.

While all major retailers in the UK are experiencing growth in sales during the coronavirus outbreak, there are noticeable trends. Primarily the most extreme growth in sales has been via retailers at opposite ends of the market: Lidl, Iceland and Aldi are dominant discounters while Ocado, Waitrose and to a lesser extent The Cooperative occupy the high end and convenience sector. Meanwhile mid-range retailers, traditionally the UK's biggest, have experienced less rapid growth<sup>5</sup>.

But the coronavirus is a global pandemic, and its effects are far reaching. Conversations with stakeholders revealed that Sierra Leone has essentially been 'shut down' by the pandemic, and as a consequence supply of all grown and produced commodities has dropped. A second peak in the UK, or indeed a continued pandemic in the African region could make supply chains unsustainable in the long term, and therefore operating initially at low volumes until a more certain picture is available is the most logical way to proceed. Furthermore, despite considerable investment to help the country fight the outbreak from the World Bank and others, there are considerable fears that both the health and economic impacts could be vast, particularly given the recent Ebola outbreak<sup>7</sup>.

Palm oil prices are expected to be hit hard by the outbreak, with weak demand caused by global food service closure causing stock piles. This was evidenced by China, who lost a month of demand during their lockdown period<sup>8</sup>. Second and third waves could therefore be disastrous for a number of reasons, and with the USA and UK both still in the midst of the crisis, normality is far from being resumed.

Any launch into the UK over the next 12-48 months will need to be carefully considered, with consumer habits potentially altered long term. Demand for many products has been altered with food service closed and retail being boosted as a result, and combined with the threat to supply chains caused by Brexit, a slow build strategy is recommended for any producer, but particularly those who are new to UK export.

### 3.2. Events and Trade Shows

Identifying key partners to meet and shows to visit should be a consideration for any stakeholder wishing to enter the UK market. Trade shows still represent a strong opportunity to network; to meet importers, exporters and key retail and distribution partners working in almost all channels. All UK events listed are in 2021; all relevant 2020 events have now been postponed due to the coronavirus outbreak.

A small number of European shows have also been recommended that could be particularly relevant to palm oil producers wishing to enter the European market, particularly if private label is a consideration.

Table 6 - List of recommended trade shows.

Name	Location	Proposed Date	Focus
PLMA's World of Private Label	RAI, Amsterdam, The Netherlands	2-3rd December 2020	Large private label event.
IFE 2021 The Hospitality Show	ExCel Centre, London, UK	22-24th March 2021	The UK's largest food & drink event. Large and highly recommended.
Food & Drink Expo 2021, The Ingredients Show	NEC, Birmingham, UK	12-14th April 2021	Large trade event encompassing food service, retail, speciality and more.

Natural & Organic Products Europe	ExCel Centre, London, UK	18-19th April 2021	Leading European natural & organic trade show.
Speciality & Fine Food Fair	Olympia, London, UK	6-7th September 2021	Consumer and trade event highlighting artisanal food & drink.
Lunch!	ExCel Centre, London, UK	23-24th September 2021	Trade show targeting the entire F2G industry.
SIAL	Nord Villepinte, Paris, France	15-19th October 2022	The world's largest food innovation exhibition.

### 3.3. Final Recommendations and Next Steps

Palm oil is a very unique market. Palm oil is mature, single-product, bulk focused and unpopular from a consumer perspective. Palm oil is a high volume, bulk market dominated by global entities who squeeze supply chains revolving around a refinery.

Palm oil is very diverse in terms of usage, with energy, animal foods and cosmetics manufacturing all potential avenues. Food manufacturing dominates however, and sustainability certifications are fundamental to accessing this in any great volume and in the long term. Entry and access point will depend heavily on whether imported product is crude or refined, as while demand for the former is plummeting, imports of the latter continue to rise as a replacement. Value addition opportunities are limited, particularly in cosmetics, where demand has dropped considerably.

With this in mind palm oil products require long-term strategies, such as seeing volume increased through a targeted campaign within the world food niche. Sierra Leonean produce could gain a competitive advantage depending on Brexit negotiations, with free trade maintained thanks to an existing trade agreement that other competing countries will not have in place as of 31st December 2020.

Caution should be applied though. Considerable investment will be needed by producers in Sierra Leone to fix internal production issues that will prevent long term supply into global markets at scale, while the coronavirus outbreak presents a level of uncertainty with respect to supply and demand that makes building a long term strategy challenging. While export volume could be increased quickly, these issues could cause more harm than good in the long term and therefore while global uncertainty makes supply difficult, investment should be prioritized into identified areas of concern to remove bottlenecks in the supply chain and barriers to accessing markets.

For palm oil, refinery partners and sustainability certifications are key to building a model for sustained growth. Visiting any of the trade events outlined in the previous chapter would provide insight into the requirements of the UK and European markets, and may provide a valuable chance to network.

#### Short term recommendations:

1. Seek out a viable refining partner or expand options for smallholders, as the market for crude into the UK is limited.
2. Continue to prioritize RSPO certification steps, as well as considering a Sierra Leonean board for sustainability and education for smallholders on best practice.
3. Commence a market readiness and access campaign, aimed at helping SMEs and exporters meet the requirements of the UK food market and forming a detailed plan for market access. This would include identifying key USPs of Sierra Leonean palm oil, sales training and a detailed list of potential customers.

4. For non-food products such as soap, consider domestic and regional markets where demand is documented to be far higher.

No long term recommendations were made due to the insurmountable nature of the first two points.

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