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## Collective Action Problems in Quality Control of Palm Oil

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### Abstract

The oil palm sector in Thailand suffers from a low oil extraction rate which is the result of poor quality fresh fruit bunches that are harvested and delivered to crude palm oil mills. This paper is based on interviews conducted in Thailand with oil palm producers, mill managers as well as members of oil palm associations and Thailand's Office of Agricultural Economics. Underlying reasons for why the fresh fruit bunch quality is inferior include a lack of price discrimination for different qualities of fresh fruit bunches, a paltry incentive structure within mills for quality control, an overcapacity of mills, an intense competition between mills and the current labor structure for harvesting fresh fruit bunches. Unfortunately, these reasons formulate a collective action problem at both the producer and mill levels. Thus, third party intervention is required. Solutions include increasing producer incentives, subsidizing mills, and/or mandating that mills must have quality control. If the quality of fresh fruit bunches were improved the oil extraction rate would increase, which would increase fresh fruit bunch prices and crude palm oil production.

Although by no means an easy task, the quality of fresh fruit bunches can be improved, given the right steps.

**Keywords:** Collective action problems, palm oil, quality control