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Global Agricultural Information Network

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Indonesia

Oilseeds and Products Update

2011

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Report Highlights:

The disagreement between central and local government is expected to decelerate Indonesian palm oil planting area expansion over the next few years. Indonesian soybean production dropped by 0.1 million tons in MY 2009/2010 due to a decrease in harvested area and slightly lower production yields. Indonesia is reliant on imports to satisfy its 2.43 million tons of domestic soybean meal consumption in MY 2009/2010.

Post:

Jakarta

Executive Summary:

- Indonesian palm oil area expansion is expected to slow as the zoning and spatial planning disagreement between the Government of Indonesia (GOI) and local governments impacts oil palm production area expansion.
- The GOI is undertaking serious initiatives to further develop the Indonesian oleochemical industry and to enhance biofuel usage. These efforts will raise domestic consumption of palm oil in Indonesia. As a result, Indonesia is expected to dedicate increasing levels of palm oil production to domestic users in the future.
- While palm oil exports to European countries may slow in MY 2010/2011, Indonesia's total exports are predicted to grow to 17.85 million tons from 16.6 million tons over the previous marketing year.
- Indonesian soybean production dropped from 0.8 million tons in MY 2008/2009 to 0.7 million ton in MY 2009/2010 due to a decrease in harvested area and slightly lower production yields. Whether production will recover over the next marketing year depends on the weather situation. Lower production, combined with growing domestic consumption, has created higher demand for imported soybeans.
- Indonesia is reliant on imports to satisfy its 2.43 million tons of domestic soybean meal consumption in MY 2009/2010. Brazil and Argentina are Indonesia's primary soybean meal suppliers.

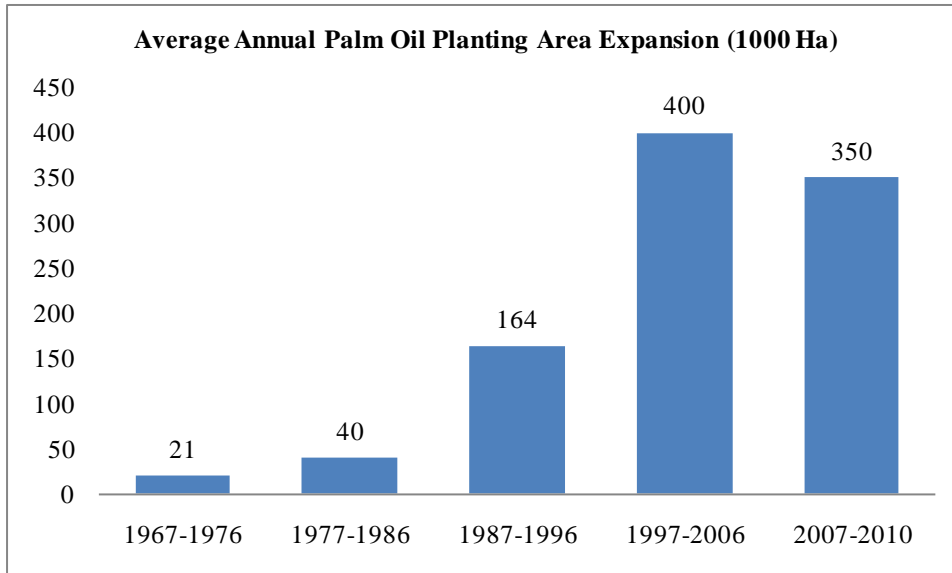
Commodities:

Oil, Palm

Production:

Area expansion and increased yields are the primary drivers of Indonesia's palm oil production growth since the mid-1960s. Data from the Indonesian Palm Oil Commission (below) shows that production areas for Indonesian oil palm increased over several decades before declining to 350,000 hectare per year during the 2007-2010 timeframe. Post expects that the annual rate of expansion will continue to decline over the next few years. A significant reason for this is that a prolonged and unresolved disagreement between the GOI and provincial authorities, vis-à-vis land usage, will continue to slow planted area expansion. Although a 2007 law (Law 26) provides specific guidelines for the GOI and provincial governments to arrange for zoning and spatial planning, there remain fundamental disagreements over the definition of 'degraded land'. Under current GOI law, provincial governments are not authorized to convert land that the GOI recognizes as primary forest land into plantation areas. Conversely, provincial governments insist that land that the GOI considers as primary forest has already been degraded and should be suitable for planting. All palm oil producing provinces have temporarily stopped the issuance

of new plantation permits for areas that the GOI as deemed to be forested lands. New plantation permits issuance will only be granted for areas that the GOI defines as non-forested land. Consequently, the Indonesian Palm Oil Producers Association (GAPKI) predicts that planting area expansion growth will possibly to decline to as low as 150,000 hectare per year.



Source: Indonesian Palm Oil Commission (recalculated)

Key challenges to palm oil area expansion can be seen by examining conditions at the regional level. In 2010 the province of East Kalimantan issued licenses 3.36 million hectares of land to be planted with palm oil trees. However, as of October 2010, only 17 percent of permitted land had been planted. In the province of Central Kalimantan, levels of lands permitted for planting were higher, at 52 percent. Central Kalimantan, however, will face a mandated reforestation of 945,000 hectares of oil palm production. This is a result of new land use and spatial plans released by Ministry of Forestry. The planting rates of permitted palm oil areas in Bengkulu is expected to be slow as many of them are overlapping with mining concession.

Table 1. Permitted Land for Palm Oil Plantation and Its Realization

Island/Province	Permitted Land (Ha)				Planting Area (Ha)	Realization (%)	Status	
	Location Permit	Plantation Permit	Cultivated Right	Total				
Kalimantan	West	1,025,000	-	-	1,025,000	680,000	66%	Jan-10
	East	217,287	2,257,880	885,659	3,360,826	573,385	17%	Oct-10
	Central	973,163	1,576,996	575,639	3,125,798	1,631,216	52%	Aug-10
	South	373,919	-	259,344	633,263	312,669	49%	Dec-09
Sumatra	Jambi	1,100,000	-	-	1,100,000	486,136	44%	Dec-09
	South	1,400,000	-	-	1,400,000	708,056	51%	Dec-09
	Bengkulu	730,360	-	-	730,360	413,020	57%	Dec-09

Source: Regional Plantation Office of Provinces in Sumatra and Kalimantan Islands

Notes to the Table

- The provincial governments are responsible for issuing Location Permits (IL) and Plantation Permits (IUP). The IL is generally issued first and defines the land that can be planted by the plantation enterprises. Within 36 months of the IL's issuance date, the enterprises must submit an environmental impact analysis, which is used for the application of the IUP. If the impact analysis is not submitted, the IL will be revoked by the local government. The land clearing and planting activities can only begin after they receive the IUP.
- Cultivation Rights (HGU) are the rights to cultivate state-owned land for plantation crop production. The duration HGU is initially for 25 years and is extendable for up to an additional 35 years (totaling 60 years if the full extension is granted). The HGU is registered at the National Land Agency, a GOI agency. The investors must have location and plantation permits before they can apply for the HGU. The HGU typically required three years to be issued. While waiting to receive the HGU, plantation enterprises can begin land clearing and planting activities.

If the zoning and spatial planning disagreement between the GOI and local governments cannot be resolved, as well as overlapping between palm plantations and mining concessions, these issues will continue to hamper Indonesia's palm oil planted areas and production in the future.

Indonesia produced 22 million tons of palm oil, extracted from 5.9 million hectares of harvested area in MY 2009/2010. The production of palm oil is expected to grow by 1.6 million tons to 23.6 million tons in MY 2010/2011 primarily due to larger harvested areas at 6.1 million hectares.

Consumption:

Palm oil in Indonesia is consumed domestically by three different end users, which include the oleochemical and biofuel sectors (industrial users), feed millers (feed users), and food processors (food users). The food processing sector takes the lion's share of domestically consumed palm oil and accounts for about 75 percent of Indonesia's total palm oil domestic consumption. The GOI has also developed initiatives to encourage the establishment of industrial "clusters" for palm oil. By creating incentives for establishing downstream industries, the GOI hopes to create robust growth for the industrial users of palm oil. The GOI also recently established the Directorate General of Renewable Energy within the Ministry of Energy. This new DG of Renewable Energy aims for pushing for broader domestic biodiesel consumption.

The oleochemical industry was established in Indonesia in 1975. The total plant capacity of the industry had registered annual growth rate at 11.5 percent within 2003 – 2008 periods. The capacity growth, however, has been stagnant since 2008, as higher palm oil prices provided less incentive for the producers to invest in palm oil downstream industry.

The major oleo products currently produced by Indonesia include fatty acids, fatty alcohol, and crude

glycerol. Most of these products are in the form of half-processed products so that they cannot be readily used by domestic industries. The objective of half-processing the oleochemical products is to encourage exports of the products.

The production of Indonesian biodiesel began in 2006. There are currently 20 biodiesel producers with installed capacity stand at 4.3 million kiloliter per year. All these producers extract fatty acid methylester (FAME) from crude palm oil with the conversion rate stand at 1 MT of CPO : 0.97 kilo liter of FAME. However, the biodiesel industry in Indonesia remains relatively small, as it is still not economically competitive with mineral diesel. The annual series of biodiesel production and the volume of palm oil required to produce biodiesel can be seen in the table 2 below:

Table 2. Indonesian Biodiesel Production and The Fuel Use of Palm Oil

	2006	2007	2008	2009	2010	2011
Production (kilo liter)	24,000	35,000	110,000	350,000	400,000	400,000
CPO Requirement (TMT)	25	36	113	360	410	410

Source: Indonesian Biofuel Producers Association and Post Calculation

Trade:

Indonesia's palm oil exports grew by 3.81 percent to 16.6 million tons of palm oil in MY 2009/2010. The implementation of the European Union's Renewable Energy Directive (RED) and growing criticism of the palm oil industry by European consumers because of perceived forest degradation may lower Indonesian export to European countries. Overall palm oil exports, however, are predicted to continue growing to 17.85 million tons in MY 2010/2011 driven primarily by a robust demand for vegetable oils in China and India, in addition to a tight global supply of soybean oil.

Policy & Programs:

- The GOI has applied a progressive export tax scheme on crude palm oil exports and its derivative products since 2008 (Ministry of Finance Decree No. 223/PMK.011/2008). The GOI raised the palm oil export tax rates from 15 percent in December 2010 to 20 percent in January 2011 due to palm oil price hike.
- The Indonesian Ministry of Industry is preparing a business plans for further developing downstream palm oil industries. The Ministry of Industry has stated that they intend to publicize the business plans by February 2011. The palm oil industrial clusters will be located in three palm oil growing provinces i.e. Riau, North Sumatra, and East Kalimantan.
- Following the Letter of Intent signed by Indonesia and Norway on May 2010, the GOI established a Reduce Emission from Deforestation and Forest Degradation (REDD) Task Force in September

2010. Central Kalimantan has been recommended by the REDD Task Force to be the initiation province for the first pilot project of REDD will be implemented. The REDD scheme will respect the licenses already granted to palm oil companies. The REDD scheme that is still being drafted by the Task Force, however, and has not proposed the operating mechanism for the postponement of new permit issuance to convert peat land and primary forest.

- The Task Force is also tasked to develop a National Strategy for REDD+ and the National Action Plan of Green House Gas Emission Reduction by December 2010. The Task Force, however, was not provided with a new time line to achieve this objective, and as a result, no real progress has been made. This creates uncertainty for the palm oil industry. The palm industry has expressed their concern that the implementation of REDD+ may create problems as the GOI will run re-forestation programs on degraded land on which some of them are already planted with oil palm trees.
- At the eighth annual Roundtable Sustainable Palm Oil (RSPO) conference that held in November 2010, Indonesia announced its Indonesian Sustainable Palm Oil (ISPO) scheme. ISPO is will be voluntarily implemented in February 2011, and it will become mandatory for all Indonesian palm oil producers in 2012. The emergence of ISPO is motivated by certain disagreements between the GOI and GAPKI with the RSPO with particular concern to three areas:
 - The RSPO certification process imposes burdens that are cost prohibitive for small and medium-sized enterprise and smallholders. The ISPO scheme would waive any certification fees for small-medium sized enterprises and smallholders.
 - According to the GOI, the RSPO has departed from its original objectives and has evolved into a non-tariff trade barrier which is imposed by other countries on palm oil imports.
 - The RSPO does not accommodate for the conditions specific to Indonesia's domestic laws and regulations.
 - Whether ISPO will be internationally recognized presents a major challenge to the GOI and GAPKI. It would not be adequate if the ISPO upheld only Indonesian laws and regulations, because the scheme would fall short on several other critical measures for achieving any real sustainability for palm oil management.

Production, Supply and Distribution of Palm Oil

Oil, Palm Indonesia	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	0	7,322	0	7,650	0	7,800	(1000 HA)
Area Harvested	0	5,744	0	5,900	0	6,100	(1000 HA)
Trees	0	995,792	0	1,040,400	0	1,060,800	(1000 TREES)
Beginning Stocks	1,072	1,072	769	459	884	394	(1000 MT)
Production	20,500	20,500	21,000	22,000	23,000	23,600	(1000 MT)
MY Imports	21	21	55	49	55	55	(1000 MT)
MY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	21,593	21,593	21,824	22,508	23,939	24,049	(1000 MT)
MY Exports	15,964	15,964	16,200	16,573	18,000	17,850	(1000 MT)
MY Exp. to EU	2,722	2,845	2,950	3,033	4,000	2,678	(1000 MT)
Industrial Dom. Cons.	773	1,205	505	1,275	525	1,290	(1000 MT)
Food Use Dom. Cons.	4,000	3,825	4,150	4,110	4,300	4,395	(1000 MT)
Feed Waste Dom. Cons.	87	140	85	155	85	170	(1000 MT)
Total Dom. Cons.	4,860	5,170	4,740	5,540	4,910	5,855	(1000 MT)
Ending Stocks	769	459	884	394	1,029	344	(1000 MT)
Total Distribution	21,593	21,593	21,824	22,507	23,939	24,049	(1000 MT)
CY Imports	5		5		5		(1000 MT)
CY Imp. from U.S.	0		0		0		(1000 MT)
CY Exports	16,829	16,829	16,200	15,500	18,000	18,000	(1000 MT)
CY Exp. to U.S.	0		0		0		(1000 MT)
TS=TD		-0		-0		0	

Commodities:

Oilseed, Soybeans

Production:

Indonesian soybean production significantly dropped from 0.8 million tons in MY 2008/2009 to 0.7 million ton in MY 2009/2010. This decrease is primarily due to a drop in harvested area and production yields. More than 60 percent of Indonesian soybeans are planted in paddy field areas. Higher than average levels of rainfall in 2010 kept most farmers planting rice instead of soybeans, particularly during the third crop cycle (July – September 2010). Consequently, Indonesia's soybean harvested area and production yields decreased by about 90 thousand hectares and yields dropped by 0.03 tons per ha respectively in MY 2009/2010.

According to Indonesian National Weather Office (BMKG), higher-than-normal levels of rainfall may also occur in 2011. The upcoming 'Dry Season Forecast' due to be released during March 2011, may indicate changes to the Indonesian rainfall situation. However currently, it is still questionable whether Indonesian soybean production will return to normal levels in 2011. Therefore, Post's preliminary estimate is that production will recover slightly to 0.74 million tons in MY 2010/2011, primarily due to return to more normal levels of area planted.

Consumption:

Tempeh and tofu continue to account for upwards of 95 percent of Indonesia's domestic soybean consumption. Historically, soybean requirements for tempeh and tofu grew annually by two percent and three percent respectively. The remaining five percent of soybeans consumed in Indonesia are used by the food processing industry, which produces products such as soy milk, soy powder, soy sauce, and snack food products. The soybean consumption for those industries has grown by seven-eight percent annually. Totally, Indonesia consumes 2.25 million tons of soybeans in MY 2009/2010.

The current rising prices for poultry meat and eggs could trigger an increase in consumption of tempeh and tofu as there will be more middle lower income consumers that come to rely more on these soy-based food products for their families' protein intake. As a result, soybean usage by tempeh and tofu makers may increase by three percent and four percent respectively in MY 2010/2011. Assuming consumption growth rates of non-tempeh and tofu users remain along current trends, Indonesia will consume 2.33 million tons of soybeans in MY 2010/2011.

Trade:

While the consumption grew normally by three percent from 2.18 million tons in MY 2008/2009 to 2.25 million tons in MY 2009/2010, Indonesia had to import more soybeans at 1.62 million tons in MY 2009/2010 due to sluggish domestic production. The country imported nearly 1.4 million tons of soybeans in the previous marketing year. Due to slightly higher-than-normal consumption rates, Indonesian soybean imports are expected to slightly increase to 1.64 million tons in MY 2010/2011.

Indonesian weather patterns will also determine levels of imports, as any domestic production recovery is very dependent on the weather situation.

The United State has become the major supplier of soybeans for Indonesia, accounting for roughly 95 percent of imported soybeans.

Policy and Programs:

On December 22, 2010, the Indonesian Ministry of Finance issued Decree No. 241/PMK.011/2010, increasing import duties for the grains & feed and oilseed products to five percent from the previous rate of zero percent. The previous zero tariff rates had been enforced since January 2008. However, the Indonesian food and feed industries protested the tariff increase. (Please see the table below for list of commodities that subject to five percent import duty)

No.	HS Code	Description
1	1001.90.19.00	Wheat (other than meslin) for human consumption

2	1201.00.90.00	Soybean, not for sowing
3	1208.10.00.00	Soybean meal
4	1507.00.00.00	Soybean oil and its fractions, whether or not refined, but not chemically modified
5	1508.00.00.00	Ground nut oil and its fractions, whether or not refined, but not chemically modified
6	1513.00.00.00	Coconut (copra), palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified
7	2301.10.00.00	Flours, meals, and pellets of meat or meat offals, greaves
	2301.20.00.00	Flours, meals, and pellets of fish or crustaceans, mollusks, or other aquatic invertebrates.
8		Bran, sharps, and other residues, whether or not in the form of pellets, derived from the sifting, milling or other working of cereals or of leguminous plants.
	2302.10	- of corn
	2302.30.00.00	- of wheat
	2302.40.10	- of rice
	2302.40.90.00	- of other cereals
	2302.50.00.00	- of leguminous plants
9		Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of vegetables fats or oils, other than those of heading 2304 or 2305
	2304.00.00.00	Soya bean oil cake and other solid residues, W/N ground or pellet
	2305.00.00.00	Ground nut oil cake and other solid residues, W/N ground or pellet.
	2306.90.20.00	- of corn germ
	2309.90.20.00	Premixes, feed supplements, and feed additives

According to media reports, a group of leading officials from various Indonesian ministries met at the office of the Indonesian Ministry of Agriculture on Friday, January 7, 2011 to further discuss the tariff increases. More recently, the Indonesian Coordinating Minister of Economy announced that Indonesia would eliminate import duties on wheat, soybeans, and livestock feed in a measure to improve domestic food supplies.

Although the Minister reportedly declared that the new tariffs would be rescinded as of the week of January 10, 2011, the Ministry of Finance must release the new decree that legally amended the previous decree (PMK No. 241/PMK. 011/2010). As of January 25, the Ministry of Finance has not issued a new decree to amend the old decree. The domestic food and feed industry associations continue to urge the Government of Indonesia (GOI) for the immediate release of the new decree to rescind the higher tariffs.

Production, Supply and Distribution of Soybeans

Oilseed, Soybean Indonesia	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	650	650	650	550	650	570	(1000 HA)
Area Harvested	620	620	620	530	620	550	(1000 HA)
Beginning Stocks	23	23	100	31	125	101	(1000 MT)
Production	800	800	800	700	800	740	(1000 MT)
MY Imports	1,393	1,393	1,575	1,620	1,775	1,635	(1000 MT)
MY Imp. from U.S.	1,054	1,245	1,150	1,467	1,220	1,220	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	2,216	2,216	2,475	2,351	2,700	2,476	(1000 MT)
MY Exports	0	0	0	0	0	0	(1000 MT)
MY Exp. to EU	0	0	0	0	0	0	(1000 MT)
Crush	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Cons.	2,081	2,150	2,300	2,200	2,495	2,270	(1000 MT)
Feed Waste Dom. Cons.	35	35	50	50	55	55	(1000 MT)
Total Dom. Cons.	2,116	2,185	2,350	2,250	2,550	2,325	(1000 MT)
Ending Stocks	100	31	125	101	150	151	(1000 MT)
Total Distribution	2,216	2,216	2,475	2,351	2,700	2,476	(1000 MT)
CY Imports	1,200	1,315	1,500	1,530	1,700	1,650	(1000 MT)
CY Imp. from U.S.	1,050	1,178	1,250	1,387	1,500	1,500	(1000 MT)
CY Exports	0	0	0	0	0	0	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		-0		0		0	

Commodities:

Meal, Soybean

Production:

There are currently no soybean crushing facilities in Indonesia. Post cannot estimate any domestic production figures for Indonesian soybean meal.

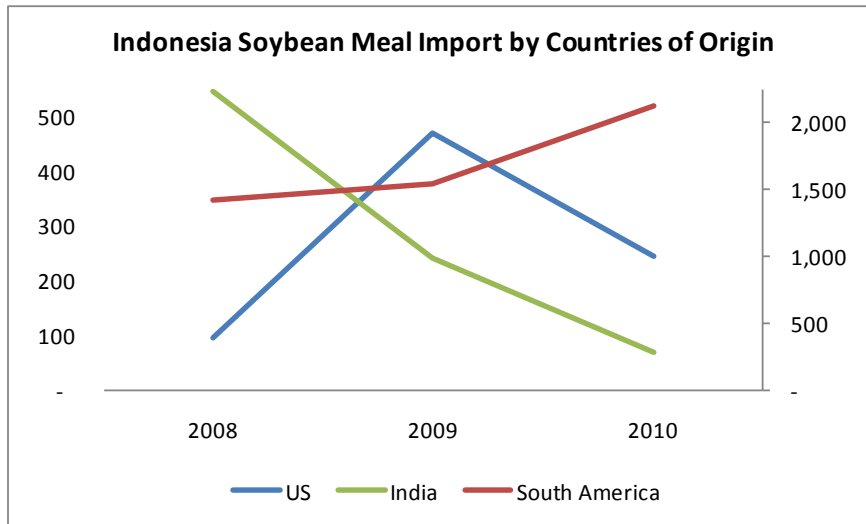
Consumption:

The feed milling industry is the only soybean meal consumers in Indonesia. Soybean meal accounts for approximately 25 percent of total feed ingredients. The growth of soybean meal consumption, therefore, is parallel with Indonesian animal feed consumption and production.

As animal feed production grew from 8.93 to 9.7 million tons in MY 2009/2010, soybean meal consumption rose from 2.38 to 2.43 million tons in the same marketing year. Soybean meal consumption is expected to further increase to 2.62 million tons in MY 2010/2011 because of higher levels of animal feed production, which is nearly 10.5 million tons.

Trade:

Indonesia is totally reliant on imports to satisfy its domestic soybean meal demand. Brazil and Argentina are Indonesia's primary soybean meal suppliers. The share of these two countries in Indonesian soybean meal market has been increasing over the last three calendar years.



Source: ASAIMSEA

Policy and Programs:

According to Indonesian Ministry of Finance Decree No. 241/PMK.011/2010 that issued on December 22nd, 2010, soybean meal is one of the commodities that is subject to the five percent import duty.

Production, Supply and Distribution of Soybean Meal

Meal, Soybean Indonesia	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Crush	0	0	0	0	0	0	(1000 MT)
Extr. Rate, 999.9999	0.	0.	0.	0.	0.	0.	(PERCENT)
Beginning Stocks	109	109	65	57	45	136	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
MY Imports	2,339	2,331	2,330	2,504	2,600	2,525	(1000 MT)
MY Imp. from U.S.	146	141	225	533	175	175	(1000 MT)
MY Imp. from EU	1	0	1	0	1	0	(1000 MT)
Total Supply	2,448	2,440	2,395	2,561	2,645	2,661	(1000 MT)
MY Exports	0	0	0	0	0	0	(1000 MT)
MY Exp. to EU	0	0	0	0	0	0	(1000 MT)
Industrial Dom. Cons.	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Cons.	0	0	0	0	0	0	(1000 MT)
Feed Waste Dom. Cons.	2,383	2,383	2,350	2,425	2,600	2,615	(1000 MT)
Total Dom. Cons.	2,383	2,383	2,350	2,425	2,600	2,615	(1000 MT)
Ending Stocks	65	57	45	136	45	46	(1000 MT)
Total Distribution	2,448	2,440	2,395	2,561	2,645	2,661	(1000 MT)
CY Imports	2,331	2,324	2,450	2,531	2,600	2,600	(1000 MT)
CY Imp. from U.S.	276	272	150	335	175	175	(1000 MT)
CY Exports	0	0	0	0	0	0	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
SME	2,383	2,383	2,350	2,425	2,600	2,615	(1000 MT)
TS=TD		-0		0		0	