

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update 2018

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Report Highlights:

With new mature area entering full production and expectations for above trend yields, the 2017/18 palm oil production forecast is maintained at 38.5 million tons, a 5.5 percent increase from 2016/17.

Soybean use in livestock feed is increasing due to the market distortions caused by the corn import ban. Meanwhile, the Ministry of Agriculture is considering measures to restrict soybean imports.

Post:
Jakarta

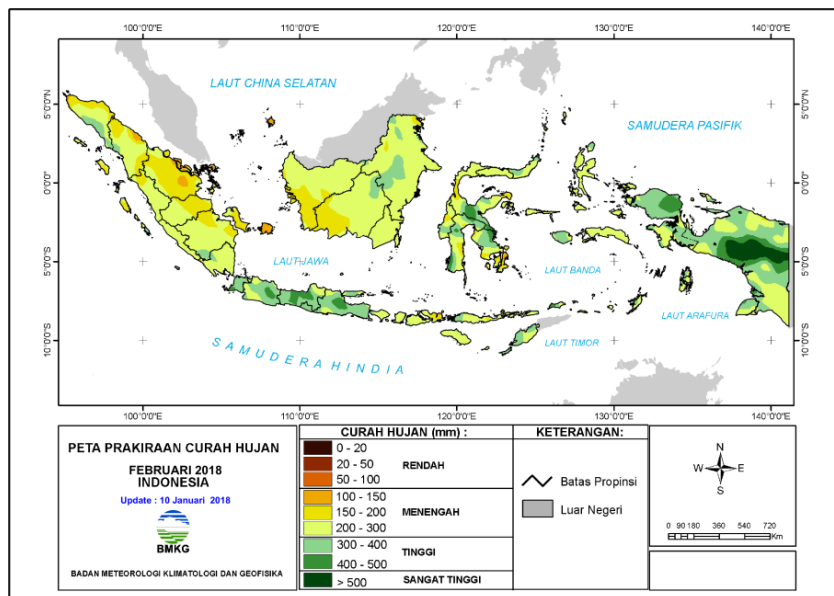
Oil, palm

Production

The 2017/18 palm oil production forecast remains 38.5 million tons. The reasons for the continued strong production forecast are: 1) new mature area entering full production; and 2) expectations for above trend yields due to favorable weather conditions.

A weak to moderate La Nina is peaking and is forecast to then weaken through June. La Nina events typically bring more rainfall. The local weather agency (BMKG) projects medium precipitation (150-300mm) for most of Sumatera and Kalimantan palm production areas in February.

Figure 1 BMKG rainfall forecast for February 2018



Source: BMKG

Seed sales peaked in 2013 at 171 million seeds sold and then gradually declined to 76 million seeds sold in 2016. Assuming seeds are planted 1 to 2 years after purchase, and an average 3-year maturation period thereafter, there should be a significant increase in area harvested during 2018/2019. A review of previous seed sales and a palm oil area update will be included in the March Oilseeds Annual.

Consumption

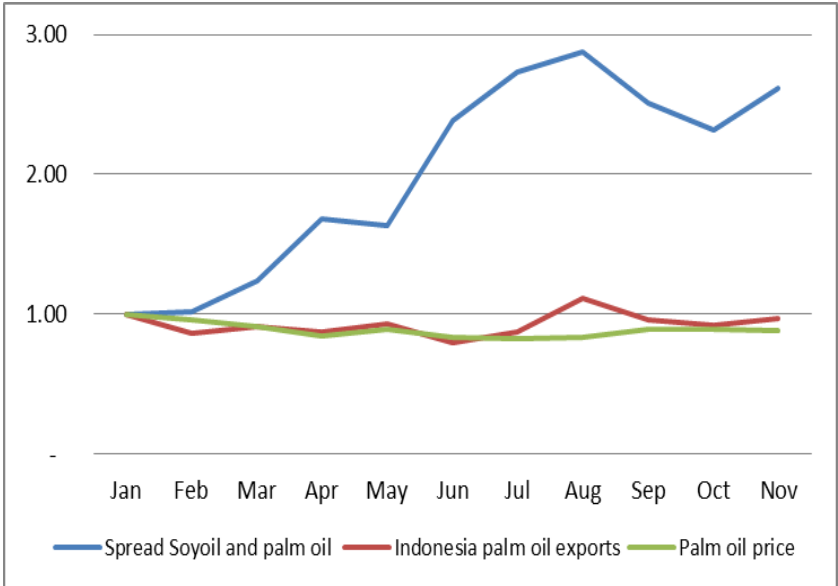
Post's 2017/18 human consumption forecast remains 5.75 million tons, and the industrial use forecast is unchanged at 3.6 million tons. The biodiesel industry is leading user of palm oil in the industrial sector. Currently, biodiesel use is only mandated for the public transportation sector, but in January 2018, the Government of Indonesia (GOI) announced plans to extend the biodiesel mandate program to non-public transit sectors, including mining. To do this, GOI will have to announce a revised mandated

volume prior to the upcoming allocation period (May-October 2018). Questions persist regarding whether the sector can increase production and expand distribution, and whether sufficient funds will be available to subsidize an expansion in biodiesel use.

Trade

From January to November 2017, palm oil exports rose as the price spread between palm oil and soy oil widened. During that period, sales to China, EU and India were 35 percent higher than the corresponding period in 2016.

Figure 2. 2017 Soy oil price, Palm oil price and palm oil exports compared to January 2017



Source: GTA, WB, BPS

With higher exportable supplies and competitive prices vis-à-vis soy oil, the 2017/18 palm oil export forecast remains 28 million tons, a slight increase 2016/17.

As of February 2018, the palm oil export levy remained at 50 USD per ton for CPO, and 30 USD per ton for refined palm oil. The separate palm oil export tax is not in effect as it only applies when the CPO reference price reaches 750 USD per ton.

Production, Supply and Demand Statistics

Oil, Palm Market Year	2015/2016		2016/2017		2017/2018	
	Oct-15		Oct-16		Oct-17	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8965	8965	9200	9200	9500	9300
Beginning Stocks	2734	2734	2958	2309	2255	1186
Production	32000	32000	36000	36000	38500	38500
Total Supply	34734	34734	38958	38309	40755	39686
MY Exports	22906	22905	27633	27633	28000	28000
MY Exp. to EU	3500	3200	3500	3400	4000	3500
Industrial Cons.	3300	3600	3450	3450	3600	3600
Food Use Dom. Cons.	5250	5600	5300	5700	5400	5750
Feed/ Waste Cons.	320	320	320	340	350	345
Total Dom. Cons.	8870	9520	9070	9490	9350	9695
Ending Stocks	2958	2309	2255	1186	3405	1991
Total Distribution	34734	34734	38958	38309	40755	39686

Soybean

Production

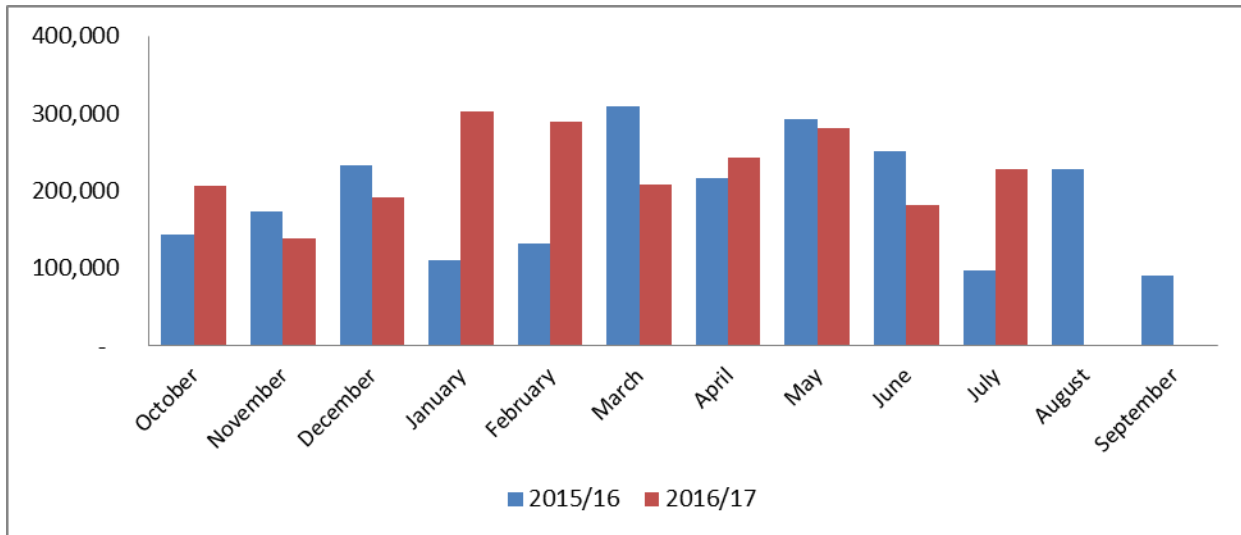
The soybean production forecast is unchanged. Despite the Ministry of Agriculture's (MOA) widely publicized plan to double planting area by the end of 2017, and then to increase area another 1.5 million hectares by the end of 2018, MOA's plan encountered significant challenges from the start. MOA's initial plan was to distribute seed from October-December, which is the beginning of the wet season. However, soybeans are typically planted as a dry season crop between paddy and/or corn plantings. Furthermore, arable land is insufficient to expand soybean area, and growing corn or rice is more profitable. For these reasons, MOA's soybean area expansion campaign is unlikely to result in any significant output increase.

Consumption

The 2016/17 soybean for feed use estimate is revised up to 150,000 tons, and the 2017/18 forecast is increased to 160,000 tons. The increase in the use of soybeans in livestock feed is due to use of more full fat soybeans (FFSB) in feed rations. Feed compounders are using more low-grade feed wheat in rations, and then using FFSB to balance the overall fat content. The feed compounders are being forced to use more feed quality wheat, because the corn import ban has made Indonesia's domestic corn prices among the highest in the world. So, the corn import ban is the fundamental reason for the increase in FFSB use.

Trade

Figure 3. Indonesia Soybean Imports MY 2015/16 and 2016/17



Source: GTIS

Policy

As part of its overall food self-sufficiency campaign, MOA circulated a draft regulation to restrict soybean imports. The draft regulation would restrict imports to when domestic supply is deemed insufficient; establish state-owned enterprise BULOG as the sole importer; prohibit imports during the domestic harvest period; and raise tariffs to as high as 19.1 percent.

To actually implement the proposed soybean import restrictions, MOA would need support from other ministries, including Ministry of Trade, Ministry of Industry, and the Coordinating Ministry of Economic Affairs. However, it is unclear whether MOA will obtain support from these other Ministries for their plan to curb soybean imports. The other Ministries are fully aware that any attempt to limit soybean imports would negatively impact several thousand small and medium sized tempeh/tofu producers, and exacerbate food insecurity and nutritional problems among millions of low-income Indonesian consumers.

Separately, MOA has also proposed to implement a GE labeling requirement (local soybeans are non-GE). Furthermore, MOA has launched a campaign on social media to promote the qualities of non-GE local soybeans compared with imported GE soybeans.

Production, Supply and Demand Statistics

Oilseed, Soybean Market Begin Year Indonesia	2015/2016		2016/2017		2017/2018	
	Oct-15		Oct-16		Oct-17	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	490	490	480	480	450	470
Area Harvested	440	440	430	430	420	420
Beginning Stocks	65	65	64	88	148	252
Production	580	580	565	565	540	540
MY Imports	2274	2274	2650	2650	2600	2650
MY Imp. from U.S.	2251	2251	2400	2500	2400	2500
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2919	2919	3279	3303	3288	3442
MY Exports	1	1	1	1	2	1
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	2824	2800	3100	2900	3100	3050
Feed Waste Dom. Cons.	30	30	30	150	41	160
Total Dom. Cons.	2854	2830	3130	3050	3141	3210
Ending Stocks	64	88	148	252	145	231
Total Distribution	2919	2919	3279	3303	3288	3442