

Required Report: Required - Public Distribution

Date: February 01,2021

Report Number: ID2021-0005

Report Name: Oilseeds and Products Update

Country: Indonesia

Post: Jakarta

Report Category: Oilseeds and Products

Prepared By: Arif Rahmanulloh

Approved By: Garrett McDonald

Report Highlights:

To stabilize rising soybean prices the Ministry of Agriculture (MOA) has put forth a three-phase plan that includes: “market operations” whereby importers would be required to sell soybeans at a loss to tempeh and tofu makers; “partnership agreements” between importers and soybean farmers, which would require importers to absorb local soybeans at fixed prices; and classifying soybeans as a “strategic commodity”, which would allow the GOI to place restrictions on imports. Palm oil exports are revised downward as higher prices have increased export tax and levy assessments.

Commodity:

Oil, palm

Production

Post maintains palm oil production at 42.5 million tons in 2020/21.

According to local weather agency [BMKG](#), 94 percent of Indonesia's season zones have entered their peak rainy season. Currently, a moderate [La Nina](#) is driving heavy rainfall in parts of Indonesia, including palm producing areas of Sumatera and Kalimantan, however no major disruptions in harvesting activities have been reported. The La Nina is expected to fully recede by May 2021. In the longer term, greater rainfall intensity and number of rainy days may increase palm yields approximately 24 months after the occurrence.

Consumption

Post maintains Indonesia palm oil consumption at 14.975 million tons in 2020/21, up from 13.67 million tons in 2019/20. Greater demand from food sector and the biodiesel mandate program are the key causes of the increase.

The GOI has maintained the B30 biodiesel blending program in 2021, allocating 9.2 billion liters, a significant increase from 8.4 billion liters in 2020. After nearly depleting the financial reserves of the CPO fund used to subsidize the nationwide mandate, the GOI has provided additional revenue, revised the biodiesel conversion formula for payments to producers, and restructured the export levy mechanism to shore up the fund's finances (see [GAIN ID2020-0015](#)). The new palm export levy adopts a price-based mechanism, thereby increasing potential revenue generation when palm prices rise.

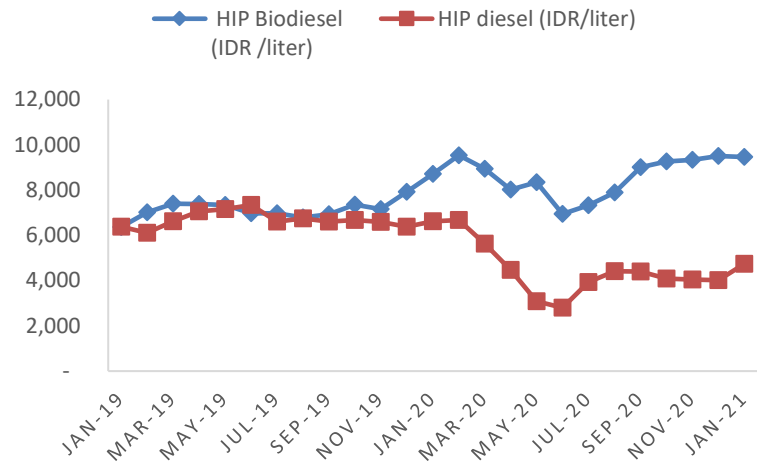
Table 1. New Palm Oil Export Levy Structure (\$/ton)

Products	Old Structure	New Structure
CPO, CPKO, Crude palm olein, crude palm stearin, crude palm kernel olein, crude palm kernel stearin	55	55 - 255
RBD palm oil, RBD PKO, RBD palm stearin, RBD palm kernel oil, RBD Palm kernel stearin, RBD palm kernel olein, FAME	25	25 - 192.5
RBD Palm Olein (In package of 25 Kg or less)	25	20 – 187.5
Palm Kernel Shell	15	7
Palm kernel, palm kernel meal	25	25

Source: Ministry of Finance (MOF) Reg 191/2020

While these measures have averted a collapse of the CPO fund and allowed Indonesia to maintain its B30 blending program, the significant price spread with diesel remains a challenge. In December 2020, the spread reached IDR 5,480 (\$.39) per liter.

Figure 1. Biodiesel and Diesel Reference Price (IDR/Liter)



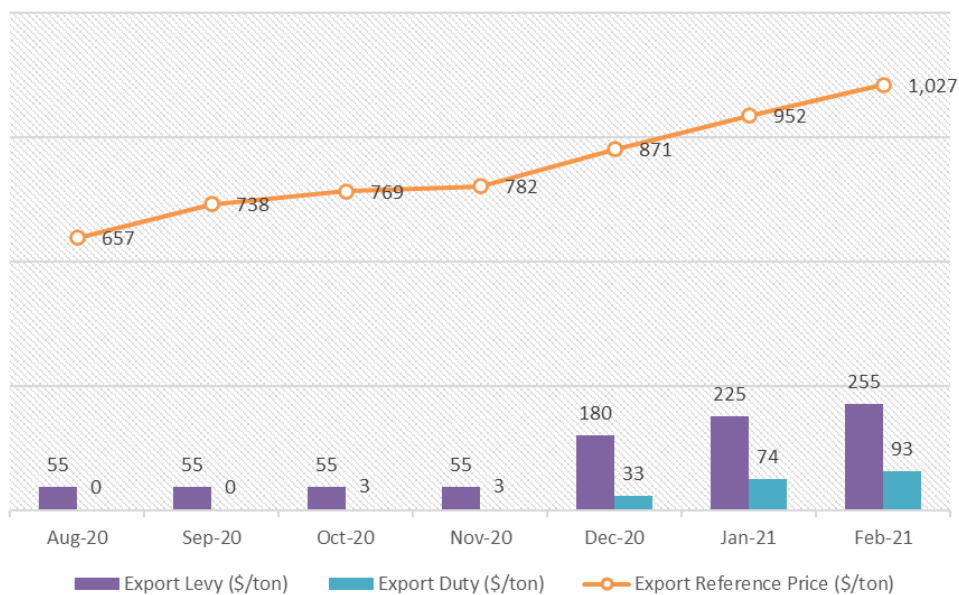
Source: MEMR

Trade

Post revises Indonesian palm oil exports downward to 27.5 million ton in 2020/21 based on higher prices triggering substantial export duty and levy assessments.

Surging palm oil prices have triggered assessments of both the palm export duty and palm export levy. The palm export reference price, used to determine both the export duty and export levy, has been set at \$1,027/ton for February (the export duty is assessed at prices above \$750/ton and the export levy is assessed at prices above \$670/ton). Based on the February reference price, CPO exports will be charged an export duty of \$93/ton and the maximum levy of \$255/ ton.

Figure 2. CPO Export Reference Price, Levy and Duty

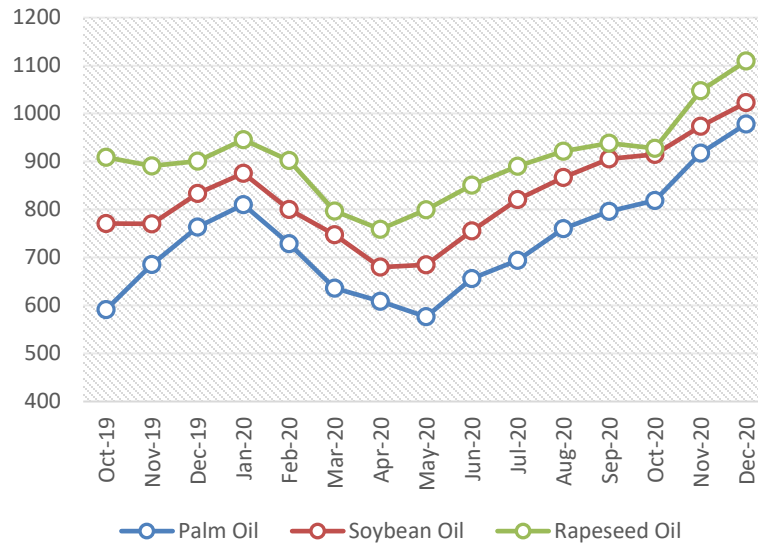


Source: Ministry of Trade (MOT), MOF

Recent palm oil prices traded at a \$100-200/ton discount to soybean oil. However, the spread has reduced from \$96/ton in October 2020 to \$44/ton in December 2020. the spread has reduced from from \$96 to \$44 in December 2020. As higher the export tax and levy narrow spread between other edible oils, buyers in several markets, such India, may switch to other oils.

The largest market for Indonesian palm oil, India is projected to import 8.5 million tons in 2020/21 (see [IN2020-0078](#)). In 2019/20, Indonesia shipped 4.9 million tons of palm oil to India, representing 19 percent of total exports. Post expects India to remain the top market for Indonesian palm oil in 2020/21, though total volumes may diminish if prices spread remain under \$100/ton for an extended period.

Figure 3 Vegetable Oils Prices (\$/MT)



Source: World Bank

China, another important market for Indonesian palm oil, has seen demand decrease due to a larger supply of soybean oil. In 2019/20, Indonesia exported 3.8 million tons of palm oil to China, a decrease of 23 percent from previous year. In 2020/21, China is expected to import 6.5 million tons of palm oil, a 100,000 ton decline from 2019/20 (see [CH2020-0143](#)).

Policy

Indonesia is preparing its first written submission to the WTO as part of its claim against the EU RED II policy, which is seen as restricting Indonesian palm-based biodiesel exports to EU market. A panel was formed in November 2020 at the request of Indonesia. A final report is not expected until 2022. Developments in the case can be found [here](#).

Oil, Palm	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct-18		Oct-19		Oct-20	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted						
Area Harvested	11,300	14,667	11,750	15,104	11,950	15,700
Trees	-	-	-	-		0
Beginning Stocks	3,079	3,079	2,663	2,663	4,280	4,255
Production	41,500	41,500	42,500	41,500	43,500	42,500
MY Imports	84	84	11	11	-	-
Total Supply	44,663	44,663	45,174	44,174	47,780	46,755
MY Exports	28,279	28,279	26,249	26,249	28,850	27,500
Industrial Dom. Cons.	7,656	7,656	8,300	7,800	8,500	8,900
Food Use Dom. Cons.	5,800	5,800	6,070	5,600	6,275	5,800
Feed Waste Dom. Cons.	265	265	275	270	275	275
Total Dom. Cons.	13,721	13,721	14,645	13,670	15,050	14,975
Ending Stocks	2,663	2,663	4,280	4,255	3,880	4,280
Total Distribution	44,663	44,663	45,174	44,174	47,780	46,755
	0	0	0	0	0	0

(1000 HA) ,(1000 TREES) ,(1000 MT)

Commodity:
Oilseed, soy

Policy

The global surge in soybean prices has led the National Association of Tempeh and Tofu Producers (GAKOPTINDO) to raise concerns to GOI officials on behalf of members whose profit margins are being squeezed by higher prices. In late December, GAKOPTINDO announced a national tempeh producers strike for three days, beginning January 1, to protest increasing soybean prices. The strike attracted national attention and has led MOA to propose several programs and initiatives in an attempt to stabilize soybean prices.

Among the programs proposed to stabilize prices in the short term are “market operations”, whereby importers are asked to sell a percentage of their soybeans at below market prices for a period of 100 days, either directly to tempeh and tofu producers or through GAKOPTINDO. Although several market operations have been held, it remains unclear the extent to which importers have agreed to participate in further activities. The Association of Soybean Importers (AKINDO) has expressed concerns that many businesses cannot sustain selling at a loss for an extended period. Additionally, importers are also being asked to form “partnerships” with local soybean farmers to ensure local production is absorbed and to incentivize increased planting of soybeans by providing favorable sales prices to farmers. Details of the proposed partnership scheme are still unclear, however, importers were asked to support local

production in proportion to their respective soybean import volumes with the goal of expanding soybean production area to 300,000 hectares.

Over the course of several hearings led by Commission IV of the DPR (Indonesian House of Representatives), members of parliament and MOA officials expressed support for various programs and actions to increase domestic production, restrict imports, and stabilize prices. During one hearing, members of parliament encouraged the adoption of import licensing measures for soybeans. Similar to licensing measures already in place for horticultural products and beef, the members advocated that importers of soybeans be required to obtain an import recommendation from MOA prior to receiving an import permit from MOT. Members also discussed requiring soybean importers to produce local soybeans as a prerequisite for importing, a system currently in place for garlic.

On January 26, Minister of Agriculture Syahrul Yasin Limpo addressed the Commission and outlined three phases of actions MOA would undertake to stabilize soybean prices. In addition to market operations and expanding planting area, the Minister also suggested adding soybeans to the list of “strategic commodities”, which would allow the GOI to exert greater control over the source, timing and volume of imports.

Production

Post maintains soybean production at 470,000 ton in 2020/21.

Despite MOA plans to increase soybean production to 500,000 tons, it remains to be seen how the program will overcome challenges related to land availability and farmer willingness to plant soybeans over more lucrative crops such as paddy and corn. Over the past several years MOA has made similar commitments to increase planted area for soybeans, with little to no effect on overall production.

Consumption

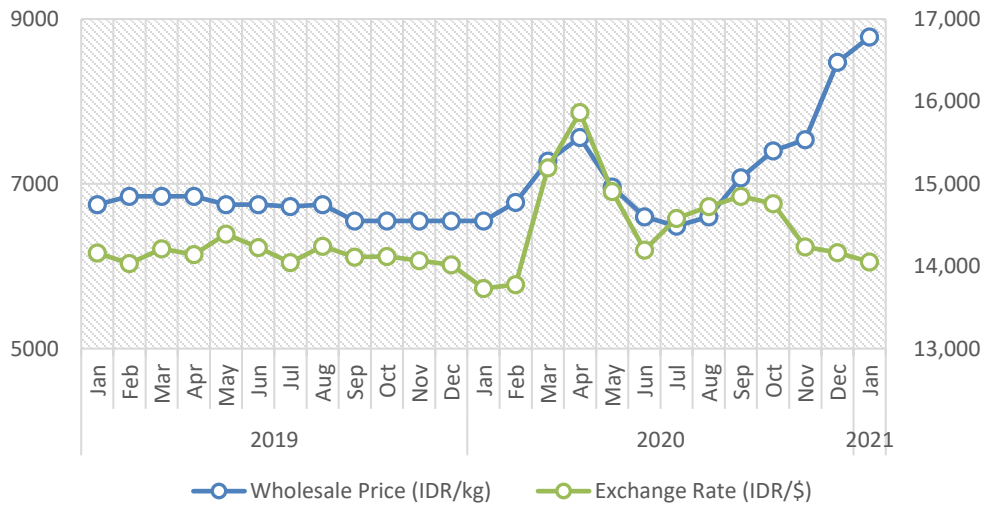
The vast majority of soybean consumption is for food use, primarily in the tempeh and tofu industries. Tempeh and tofu producers, who are often home-based businesses or small-medium enterprises, typically utilize 50-100kg of soybean per day.

In Indonesia, soybean prices initially surged in April 2020, as the pandemic began to impact the global supply chain and the rupiah declined in value. Prices in Jakarta rose from IDR 6,550/kg in January to IDR 7,563/kg in April 2020. Following a return to pre-pandemic prices in July 2020, wholesale prices again surged, increasing 35 percent to IDR 8,783 in January 2021.

In response to the price increases many tempeh producers decreased the size of their packaging, preferring to sell less volume than increase retail prices. The price increases have led some producers to cut volumes by up to 50 percent and others to halt production for short periods.

The GOI has also extended COVID-19 related social distancing and travel restrictions, extending the economic strain on the travel, hospitality and food sector. As the number of COVID-related cases and deaths continues to rise, the likelihood of a speedy recovery in the first half of 2021 appears uncertain. As a result of shrinking tempoh portion sizes and production disruptions, as well as ongoing challenges in the food service sector, Post lowers 2020/21 soybean consumption to 3.048 million tons.

Figure 4. Soybean Wholesale Price and Exchange Rate 2019-2021

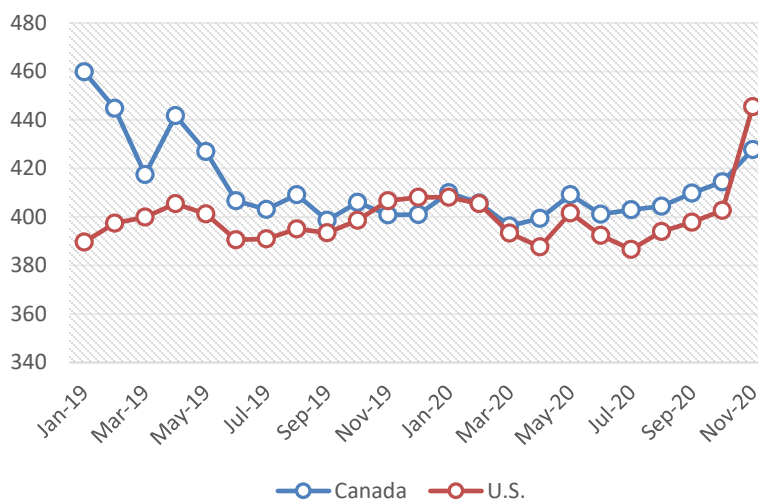


Source: USSEC Indonesia

Trade

Post maintains its previous estimate for 2020/21 soybean imports at 2.65 million tons. U.S. soybeans continue to dominate Indonesian imports, accounting for 90 percent of imports in 2019/20. However, increased shipments from Canada are likely to continue due to the price spread shifting in November 2020 to favor Canada.

Figure 5. Soybean Imports, U.S. and Canadian Canadian Origin Unit Values (\$/MT)



Source: TDM

It remains to be seen how recent announcements by GOI officials regarding possible interventions in the soybean import market will impact buying, however some buyers have already expressed concerns, reducing their purchases and shortening the length of future contracts to mitigate risk from the possibility of changes in import policy.

Oilseed, Soybean	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct-18		Oct-19		Oct-20	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	420	420	400	400	390	390
Beginning Stocks	247	247	226	226	185	282
Production	520	520	480	480	475	470
MY Imports	2,623	2,623	2,636	2,636	2,800	2,650
Total Supply	3,390	3,390	3,342	3,342	3,460	3,402
MY Exports	4	4	2	2	2	2
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	3,000	3,000	2,980	2,900	3,100	2,890
Feed Waste Dom. Cons.	160	160	175	158	183	158
Total Dom. Cons.	3,160	3,160	3,155	3,058	3,283	3,048
Ending Stocks	226	226	185	282	175	352
Total Distribution	3,390	3,390	3,342	3,342	3,460	3,402
	0	0	0	0	0	0

(1000 HA) ,(1000 MT)

Commodity:

Meal, soy

Production

Indonesia does not produce soybean meal.

Consumption

Indonesia's poultry sector continues to utilize the majority of all soybean meal. Of 94 feed millers across Indonesia, 90 are linked to the poultry feed sector (both broiler and layer) with soybean meal typically constituting 25 percent of feed composition.

In 2019/20, various lockdown, social distancing restrictions and travel bans combined to reduce soybean meal consumption to 4.6 million tons (see [ID2020-0015](#)). Post maintains 2020/21 soybean meal consumption at 4.85 million tons, as poultry feed consumption continues to rebound from pandemic related declines.

Trade

Post revises 2020/21 soybean meal imports downward to 4.6 million tons due to high carryover stocks. During October - November 2020, soybean meal imports were 669,000 tons, 32 percent lower compared to the same period in 2019.

South American soybean meal is expected to continue to dominate Indonesia supplies in 2020/21. During 2019/20, Indonesia imported 2.9-million-tons of soybean meal from Argentina and 1.74 million tons from Brazil.

Meal, Soybean Market Begin Year	2018/2019		2019/2020		2020/2021	
	Oct-18		Oct-19		Oct-20	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	-	-	-	-	-	-
Extr. Rate, 999.9999	-	-	-	-	-	-
Beginning Stocks	300	300	124	124	207	567
Production	-	-	-	-	-	-
MY Imports	4,449	4,449	5,043	5,043	4,950	4,600
Total Supply	4,749	4,749	5,167	5,167	5,157	5,167
MY Exports	-	-	-	-	-	-
Industrial Dom. Cons.	-	-	-	-	-	-
Food Use Dom. Cons.	-	-	-	-	-	-
Feed Waste Dom. Cons.	4,625	4,625	4,960	4,600	4,950	4,850
Total Dom. Cons.	4,625	4,625	4,960	4,600	4,950	4,850
Ending Stocks	124	124	207	567	207	317
Total Distribution	4,749	4,749	5,167	5,167	5,157	5,167
	-	-	-	-	-	-

(1000 MT) ,(PERCENT)

Attachments:

No Attachments