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Report Name: Oilseeds and Products Update

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Post: Jakarta

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Report Highlights:

Palm oil exports for 2021/22 are revised down to 25.5 million metric tons (MMT) on restrictive export policies and weaker global demand. The soybean subsidy program launched in April 2022 unexpectedly caused several importers to slowdown purchases. Feed mill demand for soybean meal continues to drive imports from South American origins.

Commodity: oil, palm

Production

Indonesia's 2022/23 palm oil production forecast is unchanged at 46 million metric ton (MMT) (see [GAIN ID2022-0007](#)). Post revises down its 2021/22 production estimate slightly to 45.3 MMT on a reduction of processed palm fruits. Smallholder farmers delayed harvesting fresh fruit bunches (FFB) due to depressed FFB prices which fell below 1,000 IDR (\$ 0.067) per kg in June/July 2022. Export restrictions on palm oil products had caused a processing backlog as mill storage reached maximum capacity, causing a drop in FFB demand. Several plantations eventually had to harvest and directly compost their oil palm fruits to avoid a decline in future yields that further delays in harvesting would have caused.

Consumption

Post forecasts 2022/23 palm oil consumption at 16.9 MMT, an increase of 3 percent from 2021/22 on higher demand from the biodiesel industry and the food sector.

Post updates both 2021/22 and 2022/23 palm oil use in the biodiesel industry on an expected mild increase of biodiesel production for export markets and fuel use in the transportation sector. The biodiesel mandate program continues to be the main driver, with a 30 percent blending rate remaining in place. Biofuel producer association (Aprobi) data shows biodiesel distribution reached 4.9 billion liters from January to June 2022, equal to 49 percent of the year's allocation. The temporary suspension of the palm oil export levy from mid-July to August 2021 meant decreased funding for the biodiesel mandate program. The funds collected from the export levy (CPO funds) are used to cover the price spread between palm oil biodiesel and diesel, which has narrowed since June 2022. The Government of Indonesia's (GOI) plan to raise the biodiesel blending mandate to 40 percent (B40) entered the road test phase in July 2022 and is expected to be implemented in 2025.

In the food sector, post forecasts palm oil use will rise 4 percent to 6.6 MMT in 2022/23 from 6.4 MMT in 2021/22 in line with population growth and improved economic performance.

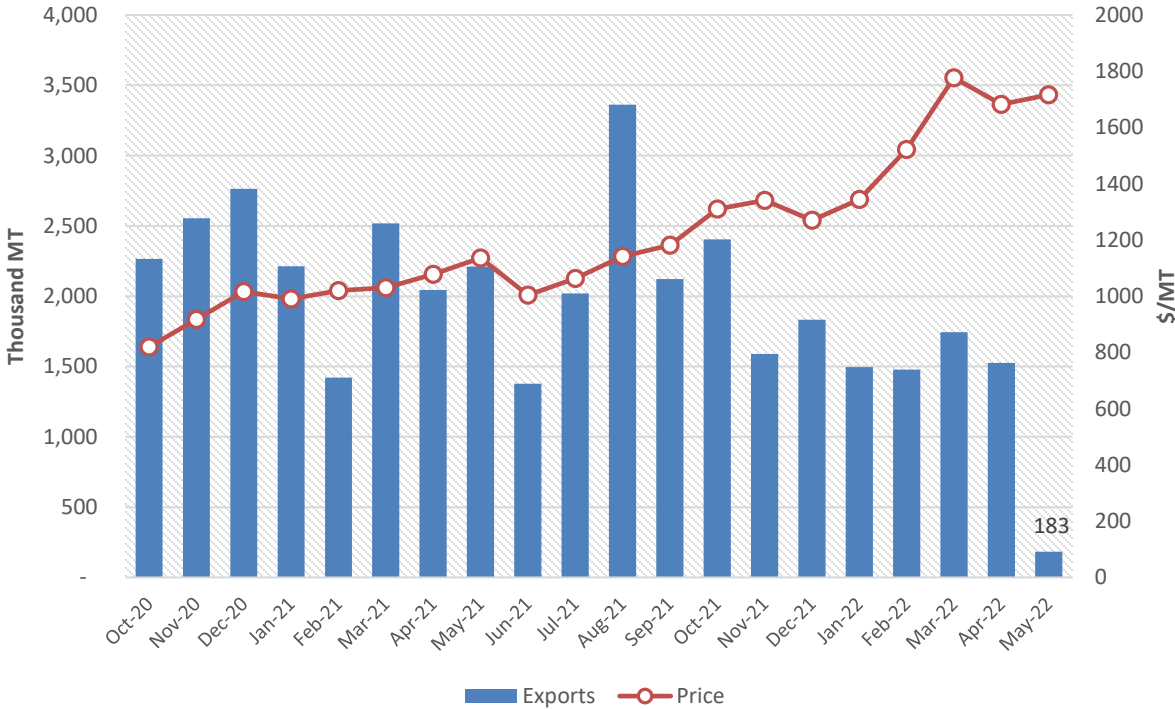
Trade

Post revises down 2021/22 palm oil exports to 25.5 MMT on export restrictive policies such as the Domestic Market Obligation (DMO) policy, the export ban policy, and weaker demand from major international markets (see [ID2022-0004](#)). Shipments began to decline in February and reached a low of 183,000 MT in May 2022. Exports to the People's Republic of China (PRC) weakened in 2021/22 as COVID-related restrictions and lockdowns reduced food service demand for vegetable oils (see [CH2022-0075](#)). Shipments to the PRC reached 1.3 MMT during the first eight months of 2021/22, 59 percent lower than the corresponding period the previous year.

Indonesia’s restrictions on palm oil exports caused stocks to climb to maximum capacity, and many mills slowed down procuring oil palm fruits from external suppliers. Consequently, FFB prices declined, leading to protests from farmers and producers’ associations. The GOI then enacted policies to “flush out” the pent-up supply through the [Export Acceleration Program](#) (allowing companies to temporarily bypass the DMO policy by paying an additional export tax of \$200 per MT) and waiving the palm oil export levy.

Post forecasts 2022/23 exports at 29.5 MMT, an increase of 4 MMT from 2021/22 on expected demand recovery from major markets such India and PRC. Current higher palm oil inventory is likely to make palm oil competitive with other vegetable oils for the second half of 2022.

Figure 1. Indonesia Palm Oil Exports and Prices, 2020-22



Source: Trade Data Monitor, World Bank

Policy

Since January 2022, the GOI has implemented a series of export restrictive measures, including the DMO policy and price subsidies, in response to sustained high domestic prices for cooking oil (see Table 1). According to Indonesia food price information center (PIHPS), cooking oil prices increased 35 percent between March 2021 and January 2022. In Jakarta, the average cooking oil price was 15,266 IDR (\$1.06) per kg in March 2021 and rose to IDR 20,640 per kg

(\$1.44) in January 2022. These measures aimed to ensure domestic cooking oil supply met demand to bring down prices for consumers; however, they caused export shipments to slow to a trickle and created a backlog of unused stocks.

In June 2022, the GOI began to address the ballooning inventories of palm oil with additional policies. The Export Acceleration Program or “flush out” program temporarily allowed exporters who wanted to bypass the DMO policy the option of paying an additional tax of \$200 per MT in order to export palm oil products in lieu of showing proof of domestic sales. However, the supply chain could not be so easily restarted by this new DMO exemption, and FFB prices continued to decline. The GOI then decreased its export levy in mid-June 2022, bringing it down to zero in mid-July 2022. The DMO policy is expected to be revoked if domestic cooking oil prices return to early 2021 levels.

Table 1. Evolution of Palm Oil Policies, January to July 2022

January 2022	<ul style="list-style-type: none"> The GOI subsidizes price of simple-packed cooking oil utilizing funds from the export levy (CPO fund) for two weeks. Ended late January 2022 (see MOT Regulation 1/2022). January 24, 2022: Palm oil exports restricted. Exporters must now show documentation of local distribution to be granted export licenses (see MOT Regulation 2/2022).
February 2022	<ul style="list-style-type: none"> Domestic Market Obligation (DMO) policy enacted: All palm oil exporters must sell 20 percent of planned exports to the domestic market (see MOT Regulation 8/2022).
March 2022	<ul style="list-style-type: none"> March 10, 2022: DMO quota increases from 20 percent to 30 percent. March 17, 2022: DMO revoked (see MOT Regulation 12/2022), the GOI re-imposes subsidy using CPO fund, but only for bulk cooking oil (see Ministry of Industry (MOI Regulation 8/2022)). Revision of palm export levy to cover reimposed cooking oil subsidy, stated in MOF Regulation 23/2022.
April 2022	<ul style="list-style-type: none"> April 28, 2022: Palm oil exports banned (see MOT Regulation 22/2022).
May 2022	<ul style="list-style-type: none"> May 23, 2022: Export ban lifted. DMO policy re-imposed at 20 percent (see MOT Regulation 30/2022). May 31, 2022: Subsidy for bulk/scooping cooking oil is discontinued.
June 2022	<ul style="list-style-type: none"> Export Acceleration Program (“flush out program”) enacted in attempt to improve domestic oil palm fruit prices (see MOT Regulation

[38/2022](#)).

- Palm oil export tax revised, creating a higher price bracket to capture more funds ([MOF Regulation 98/2022](#)).
- June 14, 2022: New export levy tariff structure lowers previous tariff ([MOF Regulation 103/2022](#)).

July 2022

- The DMO quota changes from 1 MT having to be sold domestically for every 5 MT to be exported (i.e., 20 percent quota) to 1 MT domestic for every 7 MT to be exported.
- As domestic oil palm fruit prices continue to drop, the GOI waives the palm oil export levy temporarily from July 15 to August 31, 2021 ([MOF Regulation 115/2022](#)), but leaving export tax and \$200 “flush-out” tax unchanged.

Source: FAS Jakarta

Figure 2. Production Supply and Distribution (PSD) for Palm Oil, 2020/21-2022/23

Oil, Palm	2020/2021		2021/2022		2022/2023	
Market Begin Year	Oct-20		Oct-21		Oct-22	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	11,950	11,950	12,100	15,300	12,500	15,400
Beginning Stocks	4,626	4,626	5,577	5,577	8,000	8,977
Production	43,500	43,500	45,500	45,300	46,500	46,000
MY Imports	-	-	-	-	-	-
Total Supply	48,126	48,126	51,077	50,877	54,500	54,977
MY Exports	26,874	26,874	24,800	25,500	29,000	29,500
Industrial Dom. Cons.	9,200	9,200	9,850	9,700	10,200	10,000
Food Use Dom. Cons.	6,200	6,200	6,727	6,400	6,900	6,650
Feed Waste Dom. Cons.	275	275	1,700	300	400	310
Total Dom. Cons.	15,675	15,675	18,277	16,400	17,500	16,960
Ending Stocks	5,577	5,577	8,000	8,977	8,000	8,517
Total Distribution	48,126	48,126	51,077	50,877	54,500	54,977
	0	0	0	0	0	0

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

Source: FAS Jakarta Estimate

Commodity: oilseed, soy

Production

Post's 2022/23 soybean production forecast is unchanged from the last update at 400,000 MT, which is a decrease of 25,000 MT from 2021/22 production due to unfavorable weather and the continued preference of farmers to plant rice and corn over soy.

Consumption

Soybean consumption for 2022/23 is unchanged from the previous estimate at 3.17 MMT, an increase of 20,000 MT from 2021/22 on continued rising demand from the tempeh and tofu industry. Despite increasing retail prices for soybeans, tempeh and tofu are still considered more affordable compared to other protein sources such as chicken and beef. Many Indonesians living on the islands of Java and Sumatra rely on this traditional soy-based food.

Trade

Post maintains soybean imports at 2.8 MMT in 2022/23 on continued demand from the soy-food based industry. Post reduces 2021/22 import estimates to 2.68 MMT on expected decreased purchases from importers due to unintended consequences of the GOI soybean subsidy program.

Soybean imports reached 1.5 MMT between October 2021 to May 2022, 13 percent lower than the same period in 2020/21. Both higher prices and increased shipment costs have affected demand and exports to Indonesia. The United States remains the main source of Indonesian soybean imports with 81 percent market share October-May 2021/22, followed by Canada (13 percent).

Table 2. Soybean Imports by Origin 2017-2022 (MT)

Origin	2017/18	2018/19	2019/20	2020/21	2021/22*
U.S.	2,426,554	2,517,226	2,382,391	2,303,618	1,276,423
Canada	46,870	76,426	244,363	252,906	211,972
Argentine	-	-	633	47,000	42,951
Brazil	-	18,900	-	9,238	41,478
Other	10,357	9,979	8,545	4,209	4,151
All Origin	2,483,781	2,622,531	2,635,932	2,616,971	1,576,975

*Note: October 2021-May 2022

Source: Trade Data Monitor

Policy

In April 2022, the GOI started a soybean subsidy program to assist the members of the tempeh and tofu producer cooperative (KOPTI) amid sustained high global prices for soybeans. The

subsidy is set at 1,000 IDR (\$0.067) per kg. To fund this subsidy, [the GOI allocated](#) 955 billion IDR (\$63 million) from the Reserve Fund for food price stabilization (CSHP) which is usually used for corn and rice.

The GOI assigned state-owned logistics company BULOG to procure and distribute soybeans in large quantities. BULOG selected suppliers with the lowest bid price to supply certain regions in Indonesia. In the first and second stage of the program (April to May 2022), BULOG distributed over 28,000 MT of soybean in 16 provinces.

Despite the volume of the subsidized soybeans distributed so far being less than 10 percent of total monthly demand, retailers experienced decreased sales as tempeh and tofu producers outside of KOPTI began purchasing soybeans from KOPTI instead of their regular private sector suppliers. Stocks at private sector distributors are expected to accumulate as tempeh producers continue to buy subsidized soybeans from KOPTI, and some importers may postpone their orders to avoid losses. Industry sources expect importers who either did not submit bids for or lost BULOG tenders will reduce their imports in the short term and wait to see whether the soybean subsidy program will be extended past July 31, 2022, before placing future orders.

Figure 3. Production Supply and Distribution (PSD) for Soybean, 2020/21-2022/23

Oilseed, Soybean	2020/2021		2021/2022		2022/2023	
Market Begin Year	Oct-20		Oct-21		Oct-22	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	390	390	350	350	330	330
Beginning Stocks	185	185	144	144	117	97
Production	475	475	425	425	400	400
MY Imports	2,617	2,617	2,650	2,680	2,775	2,800
Total Supply	3,277	3,277	3,219	3,249	3,292	3,297
MY Exports	3	3	2	2	2	2
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	2,980	2,980	2,950	2,990	3,000	3,010
Feed Waste Dom. Cons.	150	150	150	160	170	160
Total Dom. Cons.	3,130	3,130	3,100	3,150	3,170	3,170
Ending Stocks	144	144	117	97	120	125
Total Distribution	3,277	3,277	3,219	3,249	3,292	3,297
	0	0	0	0	0	0

(1000 HA) ,(1000 MT)

Source: FAS Jakarta Estimate

Commodity: meal, soy

Production

Indonesia does not produce soybean meal.

Consumption

Soybean meal consumption for 2022/23 is forecast at 5.4 MMT, an increase from 5.35 MMT in 2021/22 on continued demand from the feed industry.

Trade

Imports of soybean meal for October 2021 to May 2022 reached 3.4 MMT, 4 percent lower than the same period last year due to weaker demand from the feed industry on higher global prices. The price of soybean meal increased to over \$526 per MT starting in January 2022, 9 percent higher than the average price in 2021 of \$481 per MT. Higher raw material costs put sustained pressure on feed industry profitability during the first 8 months of 2021/22.

Indonesia's 2022/23 soybean meal imports are projected to rise 2 percent from the previous year to 5.4 MMT on expected higher demand from the feed mill industry. South America is expected to remain the main soybean meal supplier to Indonesia in 2022/23 on price competitiveness. In the current marketing year of 2021/22, less than 1 percent of total supply to Indonesia came from a non-South American source.

Table 3. Soybean Meal Imports by Origin, 2017-2022 (MT)

	2017/18	2018/19	2019/20	2020/21	2021/22*
Argentina	2,623,779	2,433,234	2,909,138	2,706,101	1,787,298
Brazil	1,527,385	1,744,537	2,001,355	2,135,270	1,503,755
U.S.	164,476	134,797	99,713	249,338	15,551
India	11,325	8,793	6,046	172,977	3,008
Paraguay	140,927	119,313	20,000	59,349	77,082
Other	17,648	8,618	6,779	12,970	3,460
All Origin	4,485,540	4,449,292	5,043,031	5,336,005	3,390,154

*Note: October 2021-May 2022

Source: Trade Data Monitor

Figure 4. Production Supply and Distribution (PSD) for Soybean Meal, 2020/21-2022/23

Meal, Soybean	2020/2021		2021/2022		2022/2023	
Market Begin Year	Oct-20		Oct-21		Oct-22	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	-	-	-	-	-	-
Extr. Rate, 999.9999	-	-	-	-	-	-
Beginning Stocks	207	207	270	270	207	220
Production	-	-	-	-	-	-
MY Imports	5,336	5,336	5,250	5,300	5,600	5,400
Total Supply	5,543	5,543	5,520	5,570	5,807	5,620
MY Exports		-		-	-	-
Industrial Dom. Cons.		-		-	-	-
Food Use Dom. Cons.		-		-	-	-
Feed Waste Dom. Cons.	5,273	5,273	5,313	5,350	5,550	5,400
Total Dom. Cons.	5,273	5,273	5,313	5,350	5,550	5,400
Ending Stocks	270	270	207	220	257	220
Total Distribution	5,543	5,543	5,520	5,570	5,807	5,620
	-	-	-	-	-	-

(1000 MT) ,(PERCENT)

Source: FAS Jakarta Estimates

Attachments:

No Attachments