

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Oilseeds and Products Update

**Country:** Indonesia

**Post:** Jakarta

**Report Category:** Oilseeds and Products

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**Report Highlights:**

Weakening domestic and international demand as a result of the Covid-19 pandemic has significantly impacted palm oil consumption and exports. Increasing stocks are expected to impact producer margins, leading to lower production. Soybean imports are lowered based on decreasing demand and rising prices due to the fluctuating rupiah.

Commodity: Oil, Palm

## **Production**

As the Covid-19 outbreak has spread across the country, industry sources indicate little impact on plantation activities, so far. The recent Government of Indonesia (GOI) “Large-scale social restrictions” (*Pembatasan Sosial Berskala Besar* or *PSBB*) policy has been applied mainly in big cities with dense populations such the greater Jakarta area. The policy does not restrict essential industrial activities, including food supply chains.

In a significant move to reduce the spread of the virus, President Jokowi announced on April 21, the GOI would implement a full ban on the annual tradition of *mudik* (homecoming), when millions of Indonesians usually return to their home provinces at the end of Ramadan. The annual travel period normally slows plantation operations as workers return home. The cancellation may result in less disruption as workers are prevented from traveling.

Although industry sources indicate sufficient CPO storage is currently available and purchases of FFB (Fresh Fruit Bunches) from smallholder farmers are continuing, significant decreases in demand, both domestic and international, is expected to considerably raise stocks. The increasing stock levels are expected to apply downward pressure on prices, rendering some production areas with higher inland freight costs unprofitable. As a result, some producers may scale back production or cease harvesting. Lower prices are also expected to reduce replanting and input usage during the second half of 2020. These reductions will likely impact yields in 2021 and possibly beyond.

Accordingly, Post revises down Indonesia palm production in 2019/20 to 41.5 million tons and 2020/21 production to 42.5 million tons.

## **Consumption**

Palm oil consumption is expected to decrease significantly in both food and industrial sectors.

Seasonal demand typically rises during the Ramadan and Lebaran Holiday season, when Indonesians gather with friends and family. However, with large portions of the country practicing social distancing and many hotels and restaurants closed or operating with limited capacity, food consumption is expected to significantly decrease. Additionally, the effects of the outbreak are likely to pose significant challenges for areas of the Indonesian economy well beyond the initial first wave and containment efforts. Important sectors for food consumption, such as the tourism industry, are likely to face challenges until a vaccine can be produced and widely distributed. Post revises 2019/20 food consumption ten percent lower to 5.4 million tons and lowers 2020/21 food consumption to 5.75 million tons.

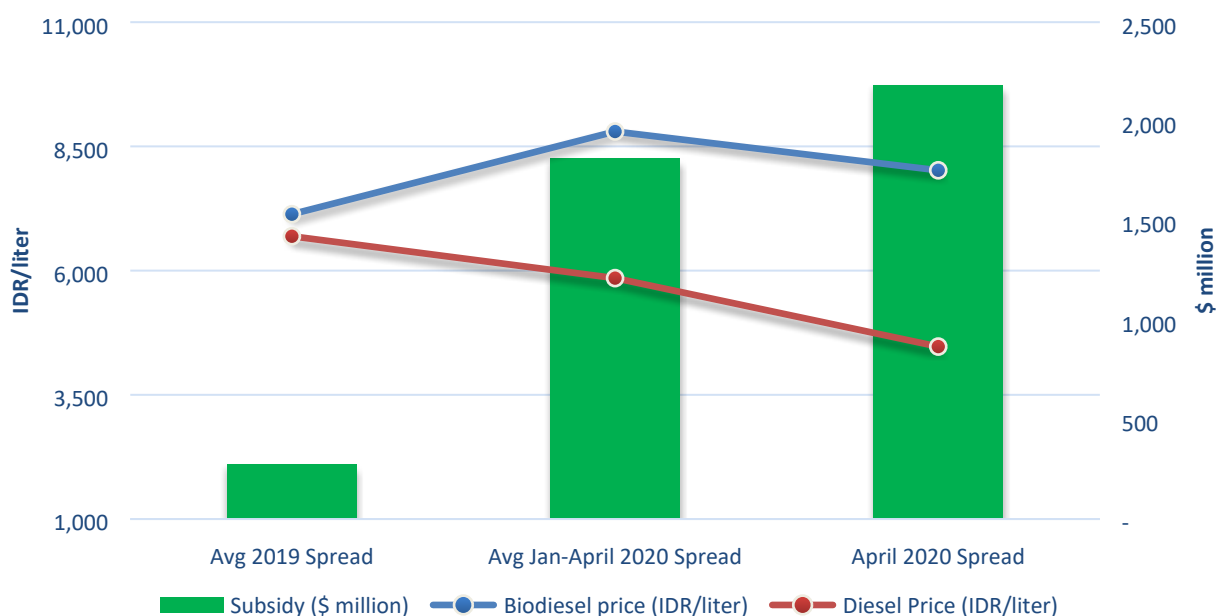
In the industrial sector, decreasing diesel fuel consumption will impact biodiesel production. In line with Ministry of Energy projections, Post revises industrial consumption downward by 13 percent (compared

to Post’s recent [Oilseeds Annual Report](#) )to 8 million tons. The current price spread between diesel and biodiesel is unsustainable for Indonesia’s existing subsidy scheme. Should the price spread continue, it will force the GOI to make changes to the current scheme for subsidizing biodiesel production. The spread has grown an additional 7 percent since March, when Post estimated the fund would be able to cover 99 percent of B30 implementation. While it is expected the GOI will likely reduce the current allocation of FAME (fatty acid methyl ester) as a result of lower consumption, even at lower volumes the fund may face solvency challenges under the current structure by the end of 2020 (see Figure 1). Increasing fund revenue by raising the export levy may prove difficult during a time of decreasing export demand and low prices. As a result, GOI could be forced to reduce the blend rate below 30 percent or to reach an agreement to revise the calculation for how the subsidy is paid to producers.

Biodiesel aside, palm oil consumption in other industrial sectors is increasing as demand for related products used for the production of soap and other sanitizers has increased.

Post revises down palm oil consumption to 13.67 million tons in 2019/20 and assuming recovering to 14.525 million tons in 2020/21.

**Figure 1. Price Spread and Estimate Biodiesel Subsidy 2020**



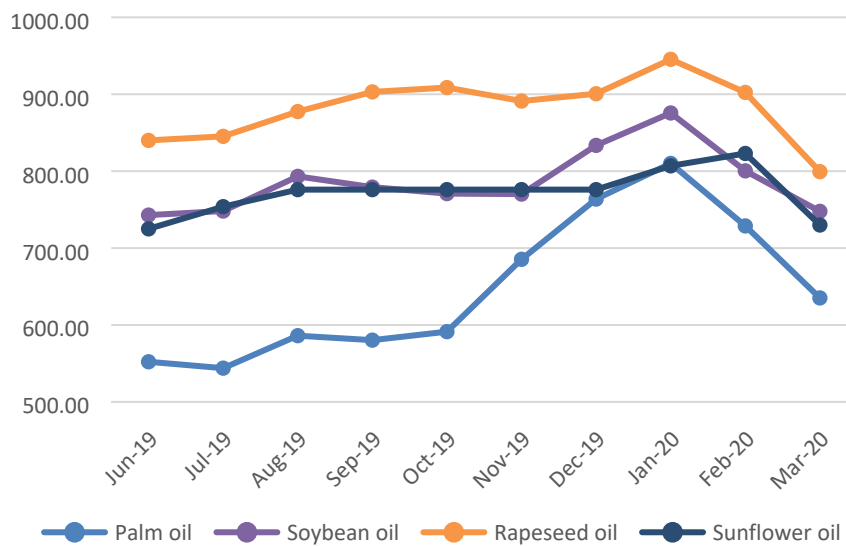
Source: Post Calculation

Note: The above Figure 1. indicates the amount of subsidy required under three different scenarios for the biodiesel price spread: the 2019 average, the Jan-April 2020 average and the April 2020 average. The figure already assumes a 13 percent reduction in consumption from the existing 9.6 billion liter allocation.

## Trade

Indonesia palm oil shipments decreased by 8.5 percent from October 2019 to February 2020 compared to same period last year. Significant declines were attributed to shipments to India (18 percent), China (10 percent) and Pakistan (11 percent). The narrowing spread with other vegetable oils has attracted Indian buyers to switch from palm oil to soft oils. The re-instatement of the export levy in January 2020 (required to support the nationwide B30 mandate) has also placed an additional premium on Indonesia palm oil exports.

**Figure 2. Vegetable Oil Prices 2019- 2020 (\$/ton)**



*Source: WB*

Recent closures of large palm plantations in Malaysia to halt the spread of Covid-19 have led to tens of thousands of Indonesian migrant laborers returning home. Although the closures were temporary and initially expected to last up to two weeks during April, it remains unclear how the return to operations may be impacted by the shortage of labor. Meanwhile, the closures have helped to stabilize prices for Indonesian FFB, despite the weakening demand overseas.

Post revises down 2019/20 palm oil exports to 27 million tons on weakening demand due to the outbreak. Exports for 2020/21 are forecast downward to 28 million tons as demand is expected to remain weak into the last quarter of 2020.

| 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   |               | 15,700   |
| Trees                 | -             | -        | -             | -        |               | 0        |
| Beginning Stocks      | 3,079         | 3,079    | 2,579         | 2,663    |               | 3,493    |
| Production            | 41,500        | 41,500   | 42,500        | 41,500   |               | 42,500   |
| MY Imports            | -             | 84       | -             | -        | -             | -        |
| Total Supply          | 44,579        | 44,663   | 45,079        | 44,163   | -             | 45,993   |
| MY Exports            | 28,279        | 28,279   | 29,110        | 27,000   |               | 28,000   |
| Industrial Dom. Cons. | 7,656         | 7,656    | 8,000         | 8,000    |               | 8,500    |
| Food Use Dom. Cons.   | 5,800         | 5,800    | 6,000         | 5,400    |               | 5,750    |
| Feed Waste Dom. Cons. | 265           | 265      | 270           | 270      |               | 275      |
| Total Dom. Cons.      | 13,721        | 13,721   | 14,270        | 13,670   | -             | 14,525   |
| Ending Stocks         | 2,579         | 2,663    | 1,699         | 3,493    |               | 3,468    |
| Total Distribution    | 44,579        | 44,663   | 45,079        | 44,163   | -             | 45,993   |
|                       | 0             | 0        | 0             | 0        | 0             | 0        |

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

Commodity: Oilseeds, Soy

### Production

In an effort to mitigate the impact of COVID-19 on the production of major staple crops such as corn and paddy, in mid-April Indonesia's House of Representatives (DPR) requested MOA to divert soybean program funds to support other crop production. The program, approximately \$ 43 million annually, has been used to provide farmers with free seeds, fertilizer and herbicide in an effort to boost domestic production. Although local farmers rarely prioritize soybean production over more lucrative crops, the removal of any subsidy or other assistance will negatively impact both area and yields.

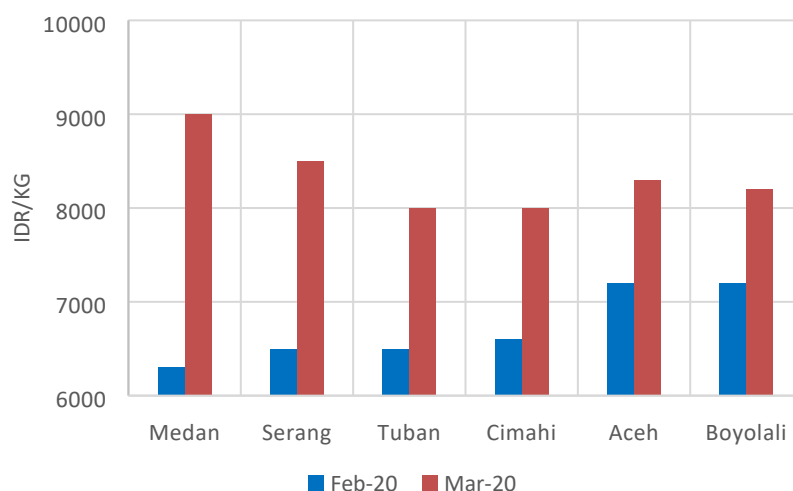
Post maintains current 2019/20 and 2020/21 production pending MOA's final decision to use or redistribute soybean support funds.

### Consumption

Post revises down 2019/20 soybean consumption to 2.75 million tons as many soy food producers have reduced their production due to increasing production costs and weakening demand following massive closures of restaurants and hotels. Over 1,500 hotels have been shuttered across Indonesia while social distancing measures have impacted nearly every restaurant's ability to fully operate, including the country's ever-present food stalls.

Additionally, the rupiah has declined 13 percent since early February 2020, forcing soy-based product retail prices significantly higher. To balance these challenges many producers have either reduced the size of the product sold in order to maintain a stable price or have temporarily closed production. Tempeh and tofu remain important parts of the Indonesian diet and are expected to remain the leading sources of affordable protein for many consumers.

**Figure 3. Soybean Retail Price Change (February – March) for Select Regions**



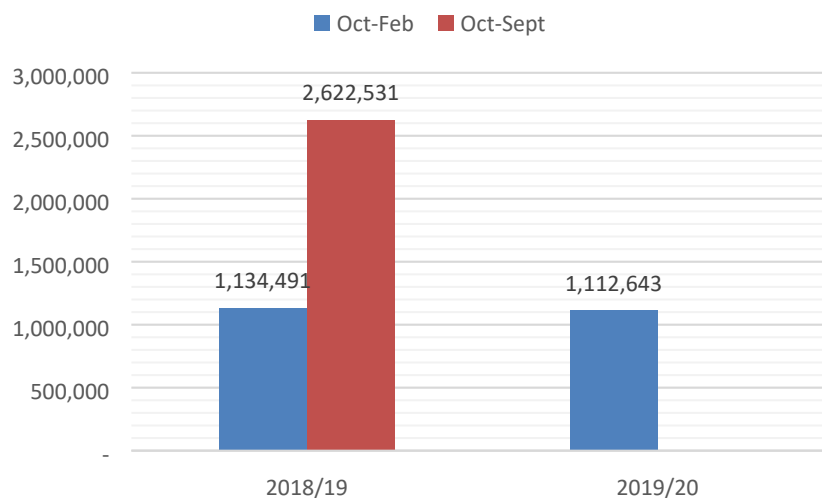
*Source: Media reports*

## Trade

Trade data indicates soybean imports from October 2019 to February 2020 reached 1.11 million tons, 2 percent lower compared to the previous period. Available data has yet to account for an expected significant drop in imports arriving in country beginning April 2020. The recent rupiah depreciation combined with increasing soybean prices has squeezed margins for small and medium importers. The situation is increasingly constraining the cash-flow vital for sustaining business operations.

Based on these factors, along with dropping consumer demand, Post revises down 2019/20 soybean imports to 2.35 million tons and 2020/21 imports to 2.7 million tons.

**Figure 4. Indonesia Soybean Imports 2018-2020**



Source: TDM, BPS

| 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 Planted          | 450           | 450      | 450           | 440      |               | 435      |
| Area Harvested        | 420           | 420      | 400           | 400      |               | 390      |
| Beginning Stocks      | 247           | 247      | 305           | 225      |               | 133      |
| Production            | 520           | 520      | 510           | 480      |               | 470      |
| MY Imports            | 2,725         | 2,622    | 2,950         | 2,350    |               | 2,700    |
| Total Supply          | 3,492         | 3,389    | 3,765         | 3,055    | -             | 3,303    |
| MY Exports            | 2             | 4        | 2             | 2        |               | 2        |
| Crush                 | 0             | 0        | 0             | 0        |               | 0        |
| Food Use Dom. Cons.   | 3,025         | 3,000    | 3,100         | 2,750    |               | 2,800    |
| Feed Waste Dom. Cons. | 160           | 160      | 175           | 170      |               | 180      |
| Total Dom. Cons.      | 3,185         | 3,160    | 3,275         | 2,920    | -             | 2,980    |
| Ending Stocks         | 305           | 225      | 488           | 133      |               | 321      |
| Total Distribution    | 3,492         | 3,389    | 3,765         | 3,055    | -             | 3,303    |
|                       | 0             | 0        | 0             | 0        | 0             | 0        |

(1000 HA) ,(1000 MT)

**Attachments:**

No Attachments.