

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Indonesia Expands Biodiesel Mandate

Report Categories:

Biofuels

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Report Highlights:

A weakening rupiah and increasing current account deficit have led the Government of Indonesia to expand the mandated 20 percent blending of biodiesel (B20) to non-Public Sector transportation. The expanded mandate is expected to increase domestic biodiesel consumption to 3.9 billion liters and push production to 5 billion liters in 2018.

Background

On August 23, 2018 the Government of Indonesia (GOI), Ministry of Energy and Mineral Resources (MEMR) issued regulation 41/2018 expanding the use of biodiesel to the non-Public Sector Obligation (non-PSO) for transportation use. Regulation 41/2018 appoints biodiesel suppliers, allocates volume for each supplier based on total capacity, details procurement and payment mechanisms, specifies reporting requirements, and describes oversight and penalty for non-compliance. Concurrently, GOI also issued Presidential Decree 66/2018, which allows funds collected through the Crop Estate Plantation Fund Agency (BDPKS) to be used to cover the production cost differential between biodiesel and diesel for the non-PSO sector. Previously, these funds were only allowed to cover production cost differential in the PSO sector. More information on Indonesia biofuels can be found [here](#).

The updated MEMR announcement for biodiesel procurement for the remainder of 2018 is as follows:

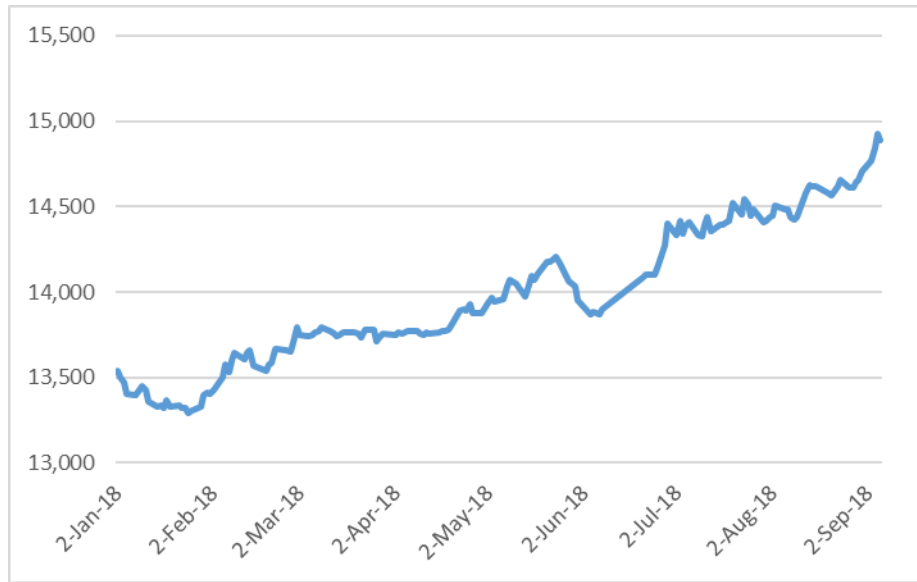
Segment	No Biodiesel Producers	No of Fuel Retailers	Total volume allocation (million liters)	Delivery Period
PSO	19	2	1950	May-December 2018
Non-PSO	19	11	940	September-December 2018

Source: MEMR

A Weakening Currency, Increasing CAD and Higher CPO Stocks

Indonesia's new policy on expanded biodiesel usage coincides with increasing global economic headwinds that have been battering the currency, enlarging the current account deficit (CAD), and increasing domestic crude palm oil (CPO) stocks. GOI forecasts the CAD to reach \$25 billion by the end of 2018, a result of increased imports and higher fuel prices. A strengthening dollar and increasing concerns over debt in other emerging economies has further contributed to a ten percent depreciation in the Indonesian rupiah (IDR) since the start of 2018.

Figure 1: USD - IDR Exchange Rate, year to date



Source: Bank of Indonesia

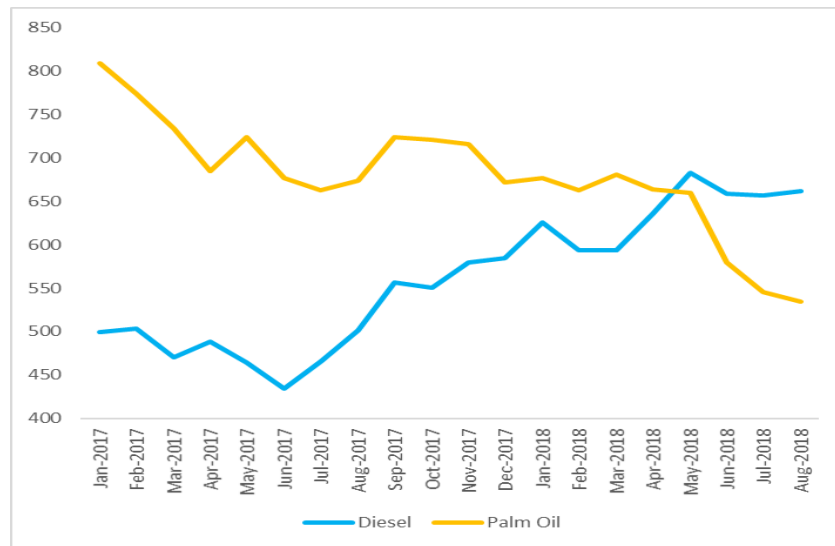
In July 2018, the Indonesian Palm Oil Producer Association (GAPKI) reported that since January CPO stocks had risen 35 percent to 4.9 million tons. Stocks increased due to production growth, combined with a 4 percent decrease in exports.

In addition to expanding biodiesel consumption to reduce volumes of higher priced diesel imports, GOI has also increased interest rates three times since the start of 2018 and recently increased an import withholding tax that requires importers to pay upfront taxes of up to 10 percent on over 1,100 consumer goods. Thus, the expanded mandate for biofuels should be seen as part of a larger GOI strategy to stabilize the currency, reduce the trade deficit, and to support a palm oil industry, which is likely to continue facing burgeoning supplies for the next several years.

Opportunities and Challenges

An increasing price disparity between palm oil and diesel has presented an opportunity for Indonesia's biodiesel producers. The disparity has led to increased discretionary blending, especially in important export markets such as China. According to GAPKI, biodiesel exports to China reached 185,000 tons in June and 210,000 tons in July 2018. Industry sources also suggest China's purchases are at least partly driven by a push from GOI to Chinese leaders to help reduce the current trade deficit, and thus are expected to continue well into 2019.

Figure 2: Diesel vs Palm Oil Price (USD per ton) 2017-2018



Source: EIA, Worldbank

Some businesses, including the Association of Indonesian Automotive Manufacturers (GAIKINDO), have expressed concern that extending B20 to the non-PSO sector may result in higher maintenance costs for vehicle fleets as mishandling and storage of biodiesel will contribute to quality issues.

Assuming successful implementation and available support from CPO funds, the expanded biodiesel mandate is expected to increase biodiesel production to 5 billion liters in 2018 and 5.8 billion liters in 2019. The biodiesel use in non-PSO sector implies additional palm oil consumption up to 865,000 tons in 2018 and about 2.5 million tons in 2019.

Production, Supply and Demand Statistics

Biodiesel (Million Liters)										
Calendar Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018f
Beginning Stocks	15	22	16	29	27	11	559	1,009	1,181	1,839
Production	330	780	1,812	2,270	2,950	3,962	1,653	3,656	3,416	5,000
Imports	0	0	0	5	24	0	0	0	0	0
Exports	204	563	1,440	1,608	1,942	1,569	343	476	187	1,500
Consumption	119	223	359	669	1,048	1,845	860	3,008	2,572	3,940
Ending Stocks	22	16	29	27	11	559	1,009	1,181	1,839	1,399
BalanceCheck	0	0	0	0	0	0	0	0	0	0
Production Capacity (Million Liters)										
Number of Biorefineries	20	22	22	22	26	26	27	30	32	31
Nameplate Capacity	3,128	3,921	3,921	4,881	5,670	5,670	6,887	10,898	11,547	11,357
Capacity Use (%)	10.5%	19.9%	46.2%	46.5%	52.0%	69.9%	24.0%	33.5%	29.6%	44.0%
Feedstock Use for Fuel (1,000 MT)										
Crude Palm Oil (CPO)	304	718	1,667	2,088	2,714	3,645	1,521	3,363	3,143	4,600
Market Penetration (Million Liters)										
Biodiesel, on-road use	95	178	287	535	838	1,476	665	2,621	2,272	3,590
Diesel, all surface transport	24,216	27,125	26,030	29,528	28,649	27,220	25,433	24,307	25,666	26,146
Blend Rate (%)	0.4%	0.7%	1.1%	1.8%	2.9%	5.4%	2.6%	10.8%	8.9%	13.7%
Diesel, total use	33,625	36,450	37,497	37,743	36,124	34,651	30,912	28,974	29,264	29,557

Source: MEMR, GTA, Post estimation

Statistical note.

Diesel: U.S. Gulf Coast Ultra-Low Sulfur No 2 Diesel Spot Price converted to USD per metric ton. 1 gallon = .003192 metric tons. Source: EIA

Palm Oil: 5 percent bulk, c.i.f. N. W. Europe. Source: World Bank