

# Indonesia Palm Oil Industry Outlook 2023 amid Global Economic Recession Threat

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# Outline

1. Performance of Indonesia Palm Oil Industry
2. Indonesia Palm Oil Industry and World Economic Growth
3. An Update of Government Policy on Palm Oil
4. Outlook 2023
5. Concluding Remark

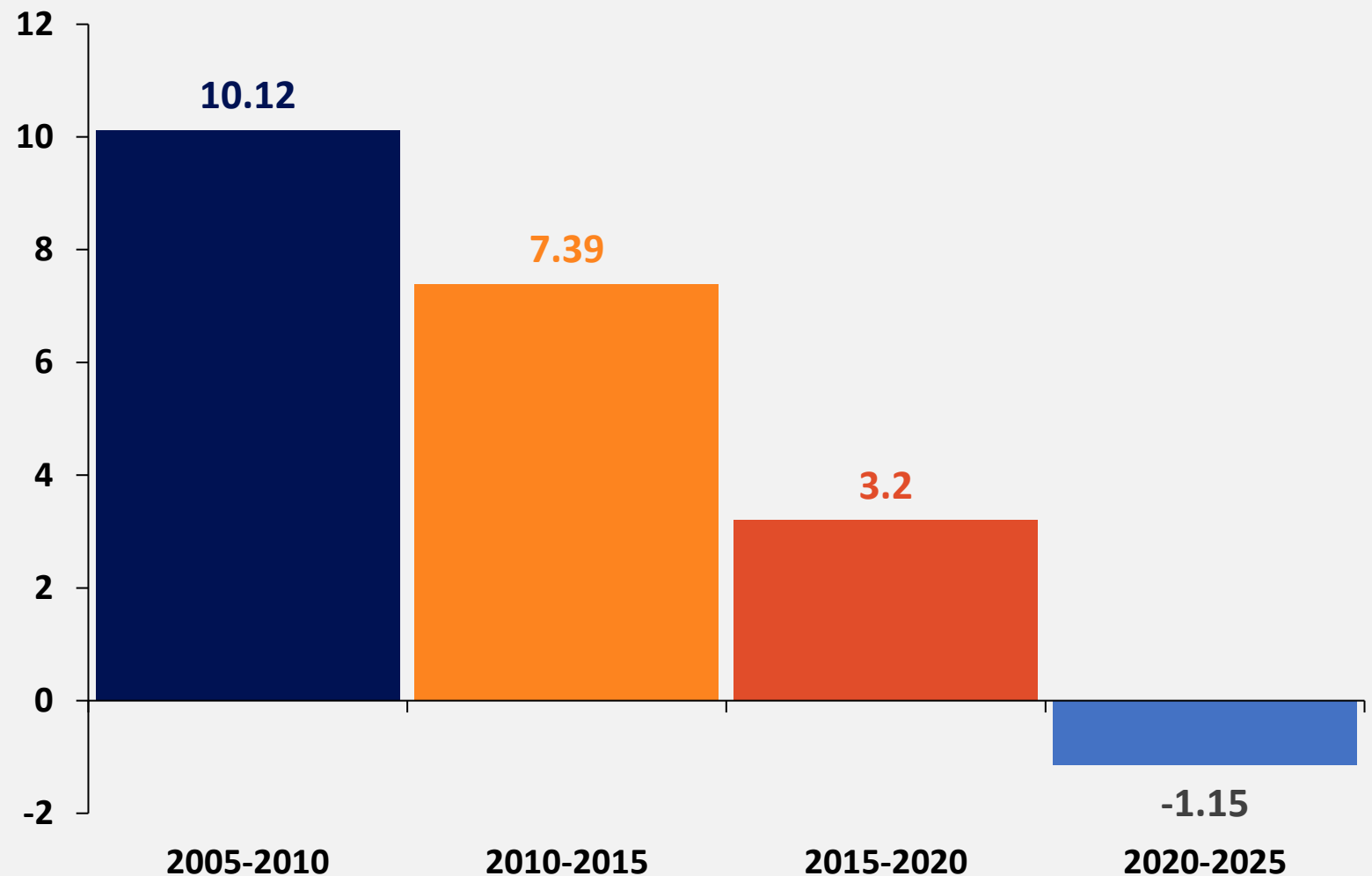


# Growth of Indonesian palm oil production, 2005-2025

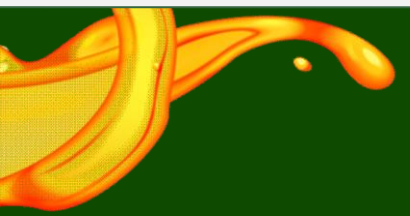


- Growth of palm oil production experienced downward trends in the period of 2005-2025. In the periods of 2005-2010 growth was 10% declined to 7.4% during 2010-2015 and further dropped to only 3.2% in 2015-2020.
- In the last three years 2020-2022 growth of production was negative indicating that there are structural problems in the industry. Both areas expansion and productivity are stagnant.

An average growth of palm oil production (%)



# Performance of Indonesia Palm Oil Industry (Supply Side)

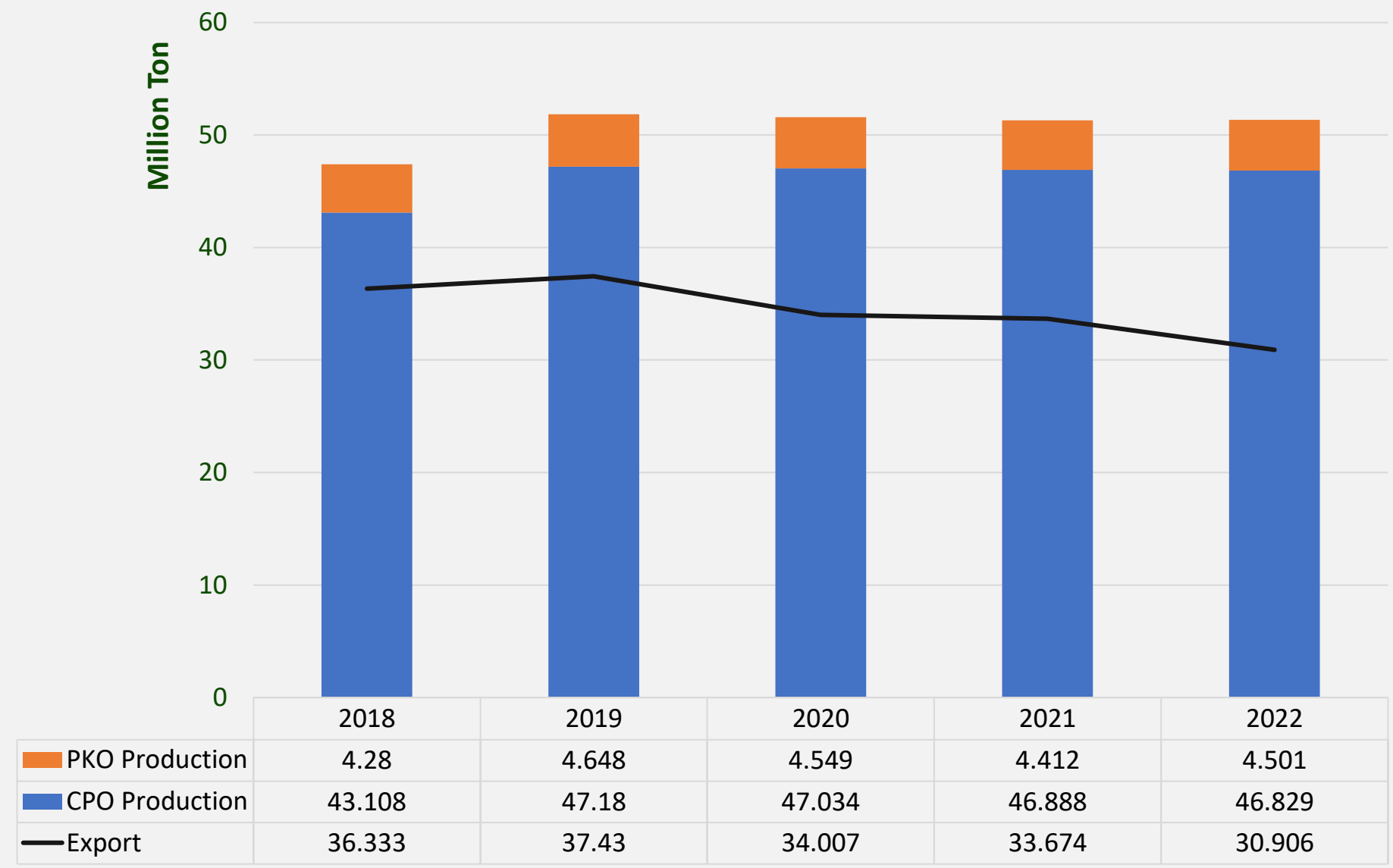


Production of palm oil amounted to 51.6 million tons in 2021 consist of CPO of 46,9 and PKO of 4,4 million tons.

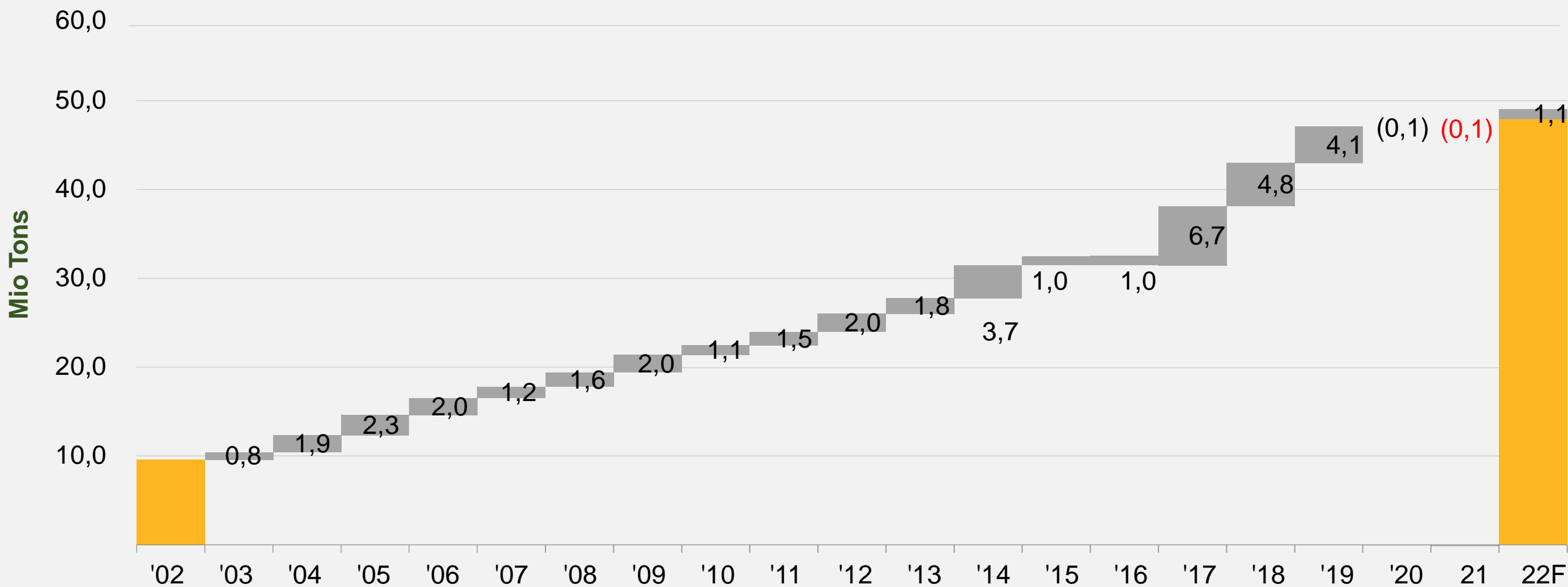
Production in 2022 was more or less stagnant and in fact the production declined in the last three years.



### Production and Exports of Palm Products



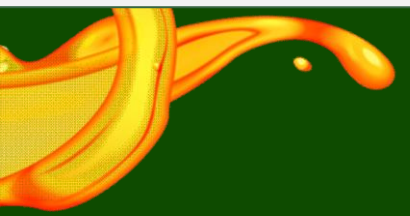
# Growth of Indonesian palm oil production in Indonesia



(10,0)

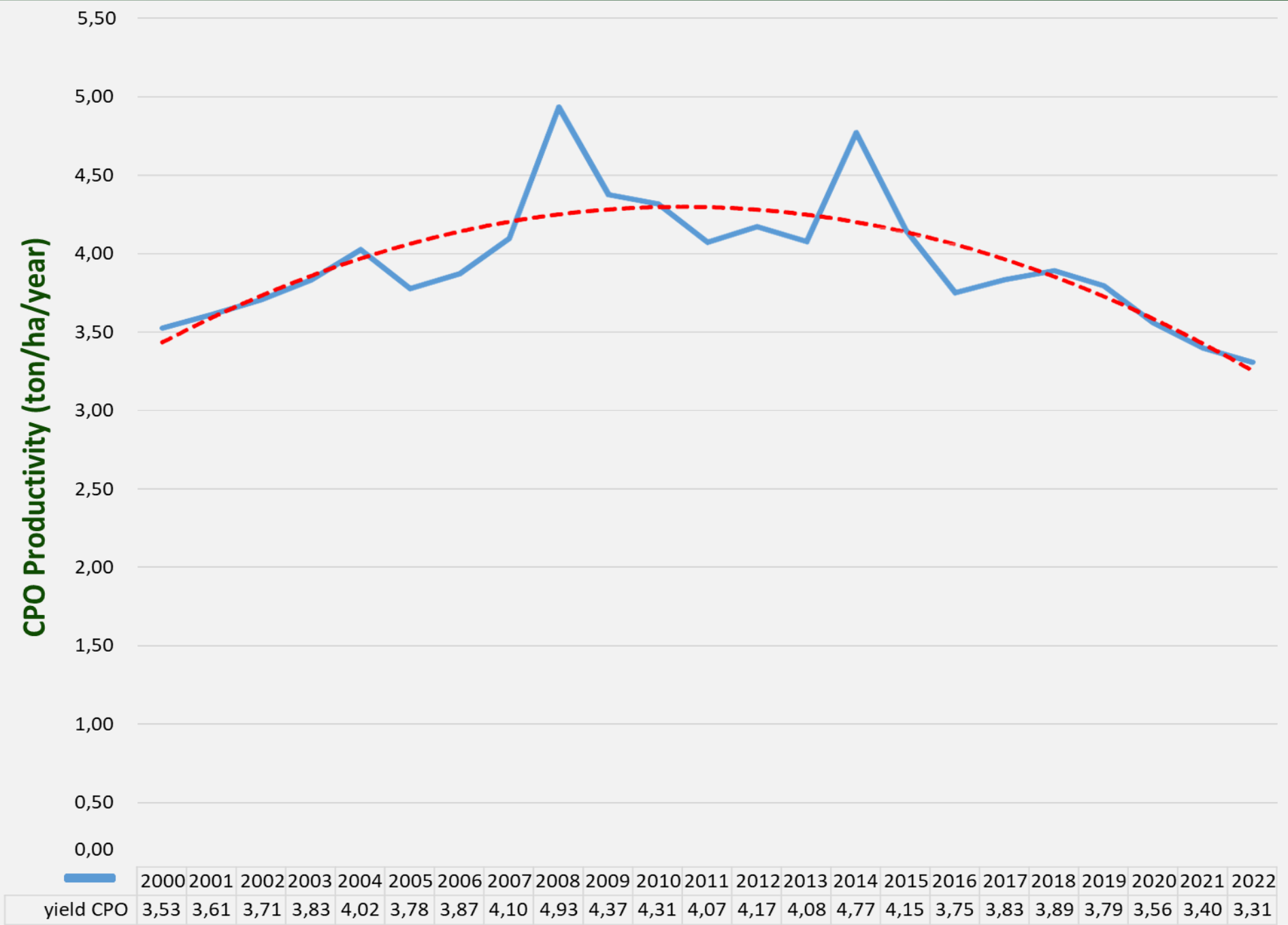
Source: GAPKI (2022), processed

# Performance of Indonesia Palm Oil Industry (Supply Side)



## Yield Performance Continue to Decline

Indonesia plantation yield trend continue to decline since 2010.

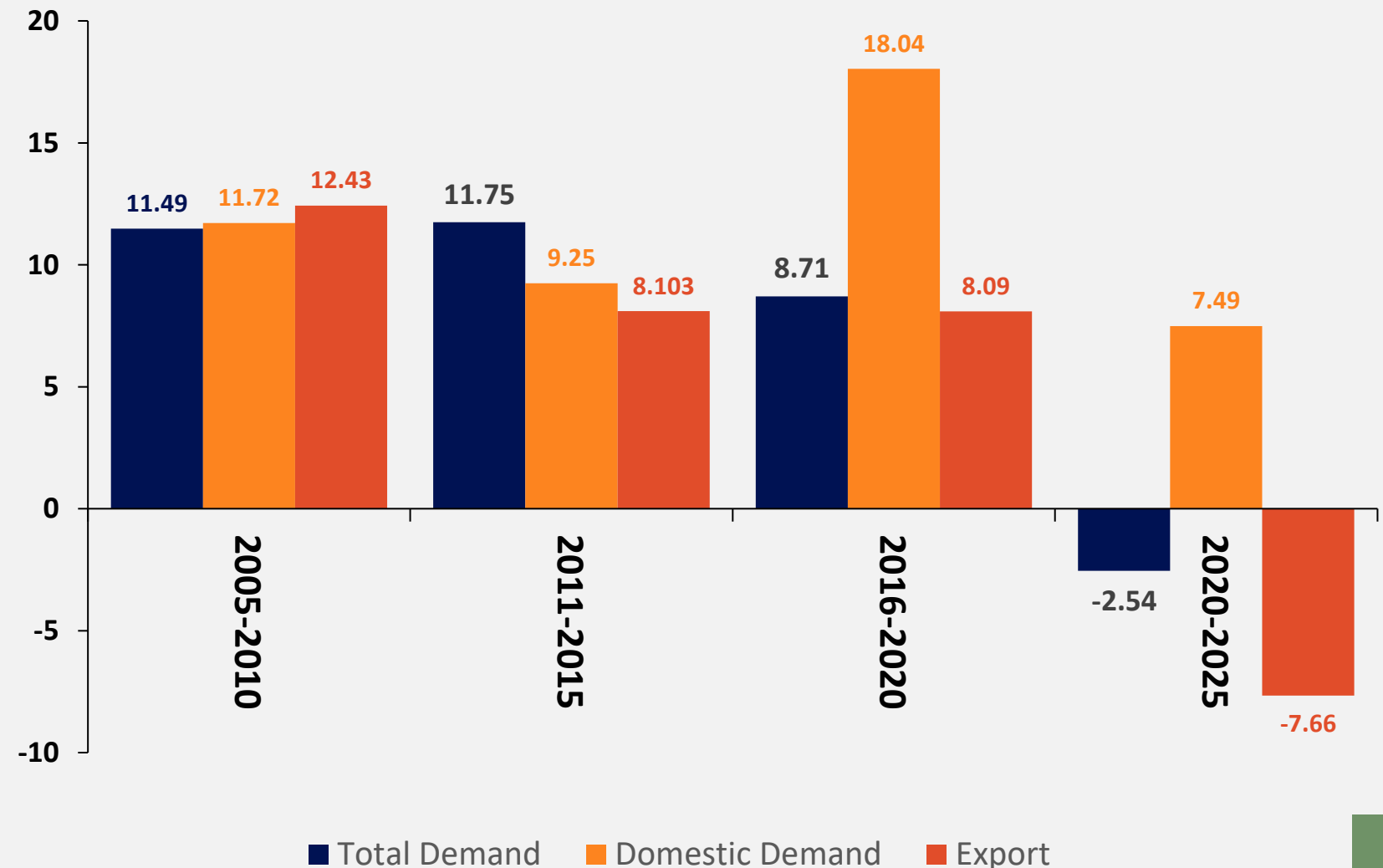


Sumber: Oil World, 2022

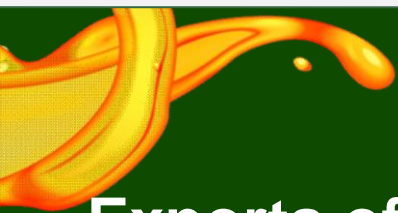
## Growth in Indonesian palm oil demand 2005-2025

- Growth of Indonesian palm oil demand was relatively stable in the periods of 2005-2015 and declined to 8.7% in the periods of 2016-2020. But, in the periods 2020-2025 it is predicted growth of demand will be negative.
- For exports, the growth showed downward trend especially in the periods of 2020-2025.
- While for domestic consumption showed considerable increase in the periods of 2015-2020 due to mandatory biofuel program.
- So, there is shift in the composition of demand from export oriented to more domestic consumption. Now, consumption's share was around 34%.

An average growth of Indonesian palm oil demand (%)



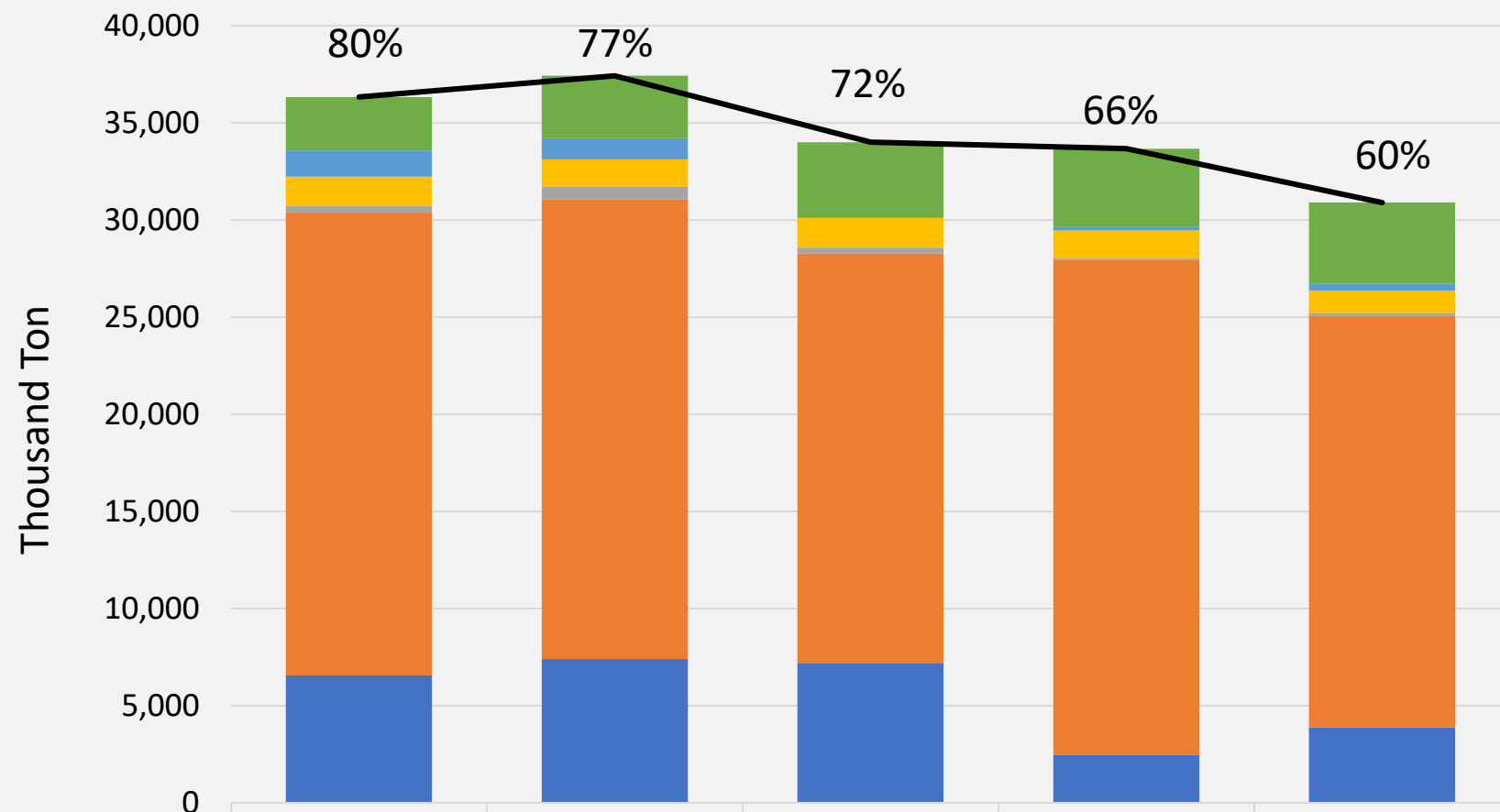
# Performance of Indonesia Palm Oil Industry (Demand Side)



## Exports of palm oil products

In 2021 exports accounted for around 66% out of production declining from the previous year. Exports in 2021 was also dominated by more downstream products.

In 2022, export experiencing disruption because of the government policy but recover in the second semester. Overall, export declined in 2022.



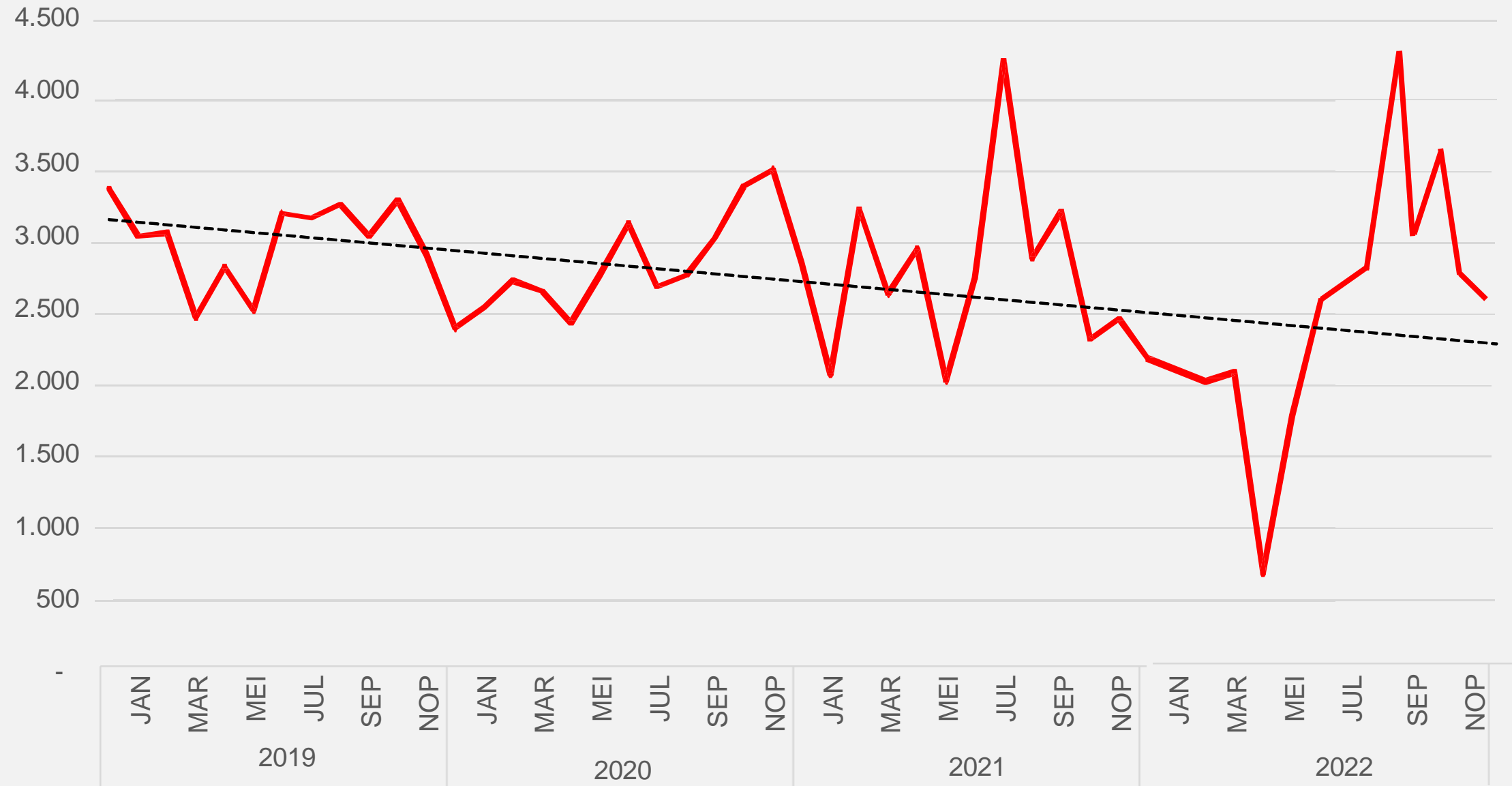
|                  | 2018   | 2019   | 2020   | 2021   | 2022   |
|------------------|--------|--------|--------|--------|--------|
| Oleokimia        | 2,746  | 3,218  | 3,871  | 4,036  | 4,166  |
| Biodiesel        | 1,356  | 1,090  | 31     | 167    | 372    |
| Refined PKO      | 1,484  | 1,396  | 1,529  | 1,458  | 1,168  |
| Crude PKO        | 369    | 651    | 301    | 52     | 124    |
| Refined Palm Oil | 23,822 | 23,677 | 21,103 | 25,481 | 21,197 |
| CPO              | 6,554  | 7,399  | 7,171  | 2,482  | 3,879  |
| Export Total     | 36,333 | 37,430 | 34,007 | 33,674 | 30,906 |



# Performance of Indonesia Palm Oil Industry (Demand Side)



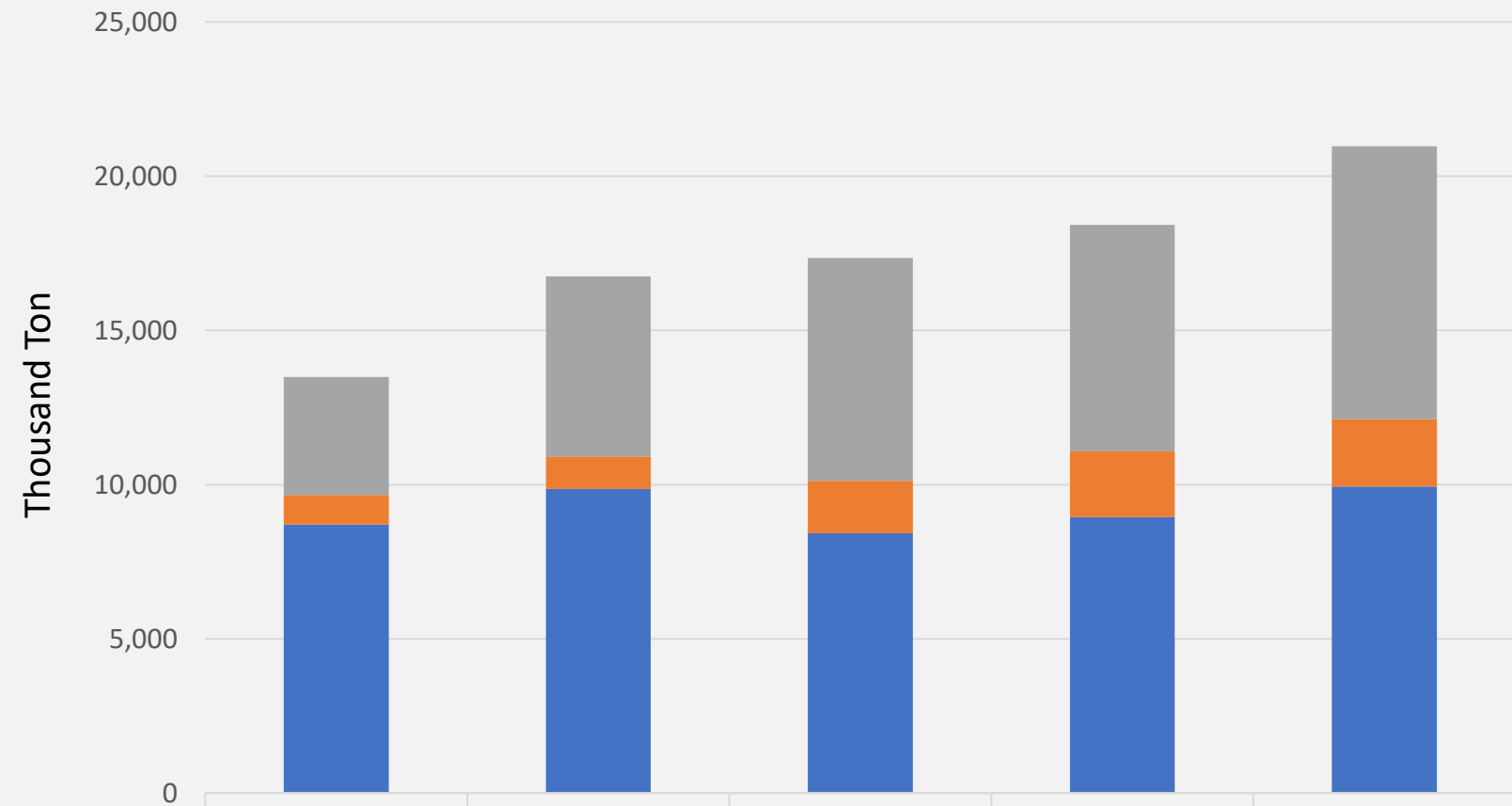
## Trend Volume Export before and after pandemic covid 19



Source: BPS (2022), processed

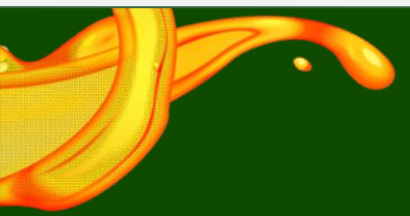
## Domestic Consumption

- Domestic consumptions continue to increase in the last five years. Consumption of oleochemical products increased due to pandemic while biofuel consumption is stable.
- Food consumption/cooking oil also relatively stable in the last three years except in the year 2022 when cooking oil consumption increased due to the scarcity in the market in the beginning of the year. .
- Government increases biofuel blending policy to 35% beginning February and plans to further increase to 40% in June/July 2023. This means that an additional of around 2-2,5 million tons CPO consumed domestically.



|                         | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|
| ■ Konsumsi u/ Biodiesel | 3,824 | 5,831 | 7,226 | 7,342 | 8,842 |
| ■ Konsumsi u/ Oleokimia | 963   | 1,056 | 1,695 | 2,126 | 2,185 |
| ■ Konsumsi u/ pangan    | 8,704 | 9,860 | 8,428 | 8,954 | 9,941 |

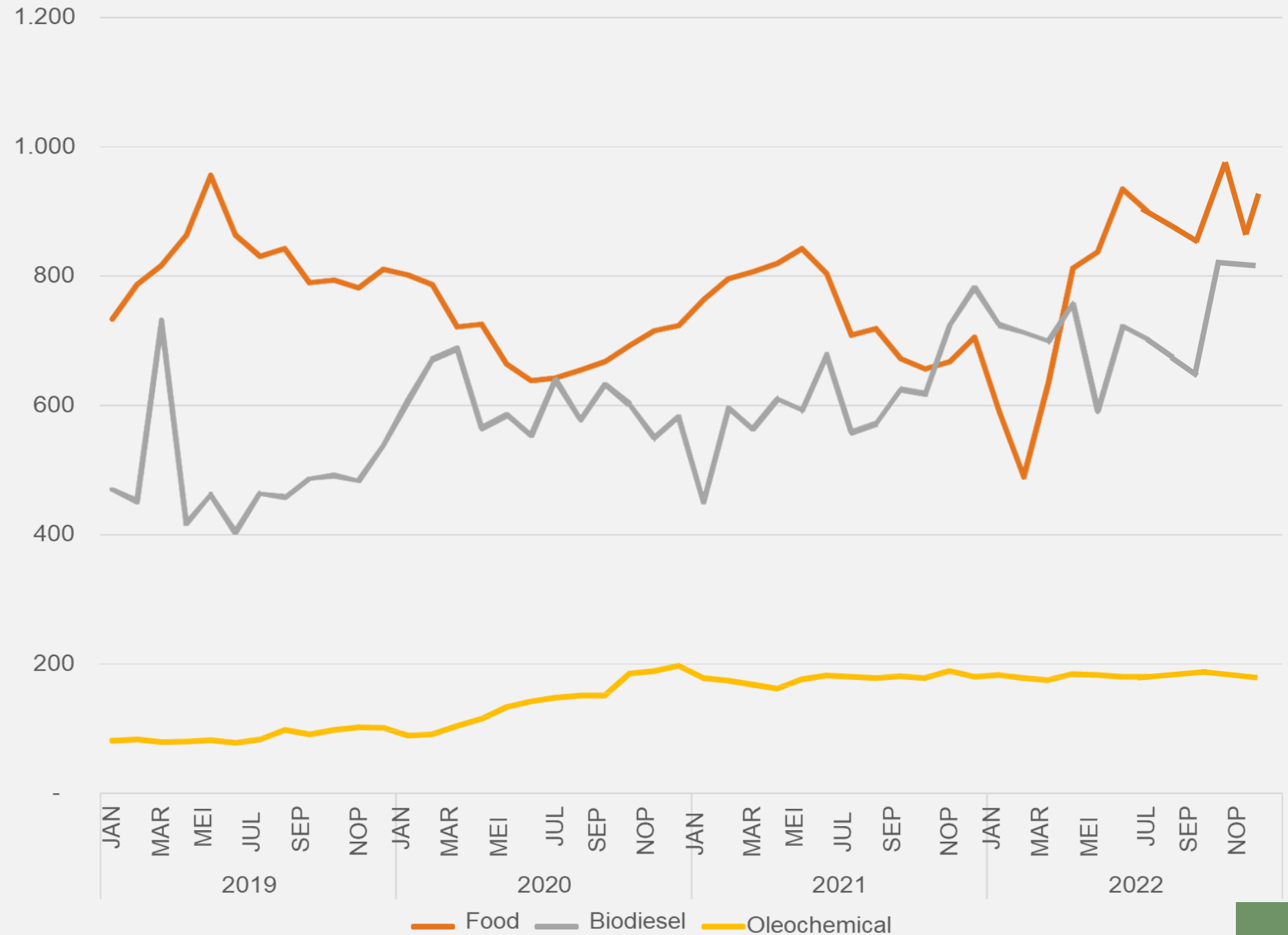
# Performance of Indonesia Palm Oil Industry (Demand Side)



## Domestic consumption

Domestic consumption relatively stable especially for food and biofuel.

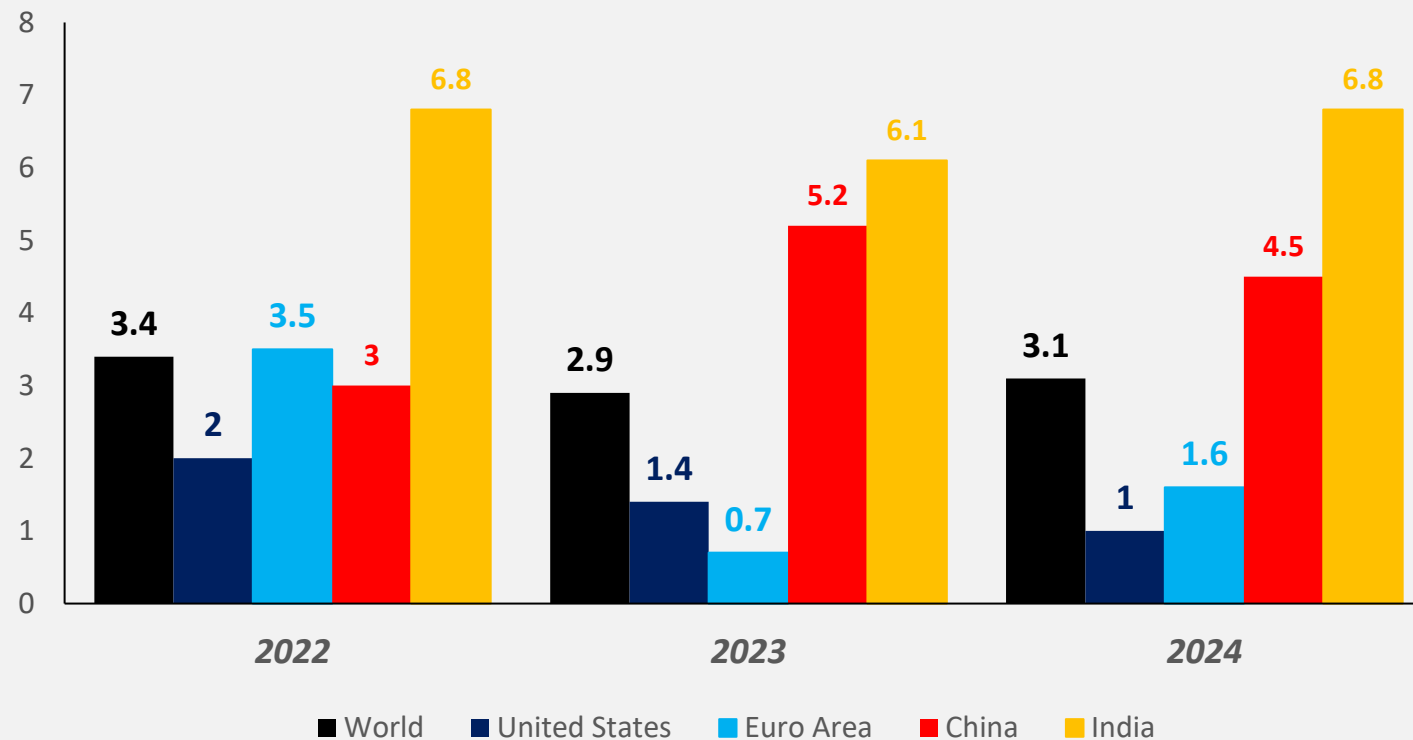
While oleochemical consumption is up the last two years due to pandemic covid 19 where demand for oleochemical products increased.



Source: GAPKI, GIMNI, AIMMI, APROBI, APOLIN (2022), processed

# World economic projection

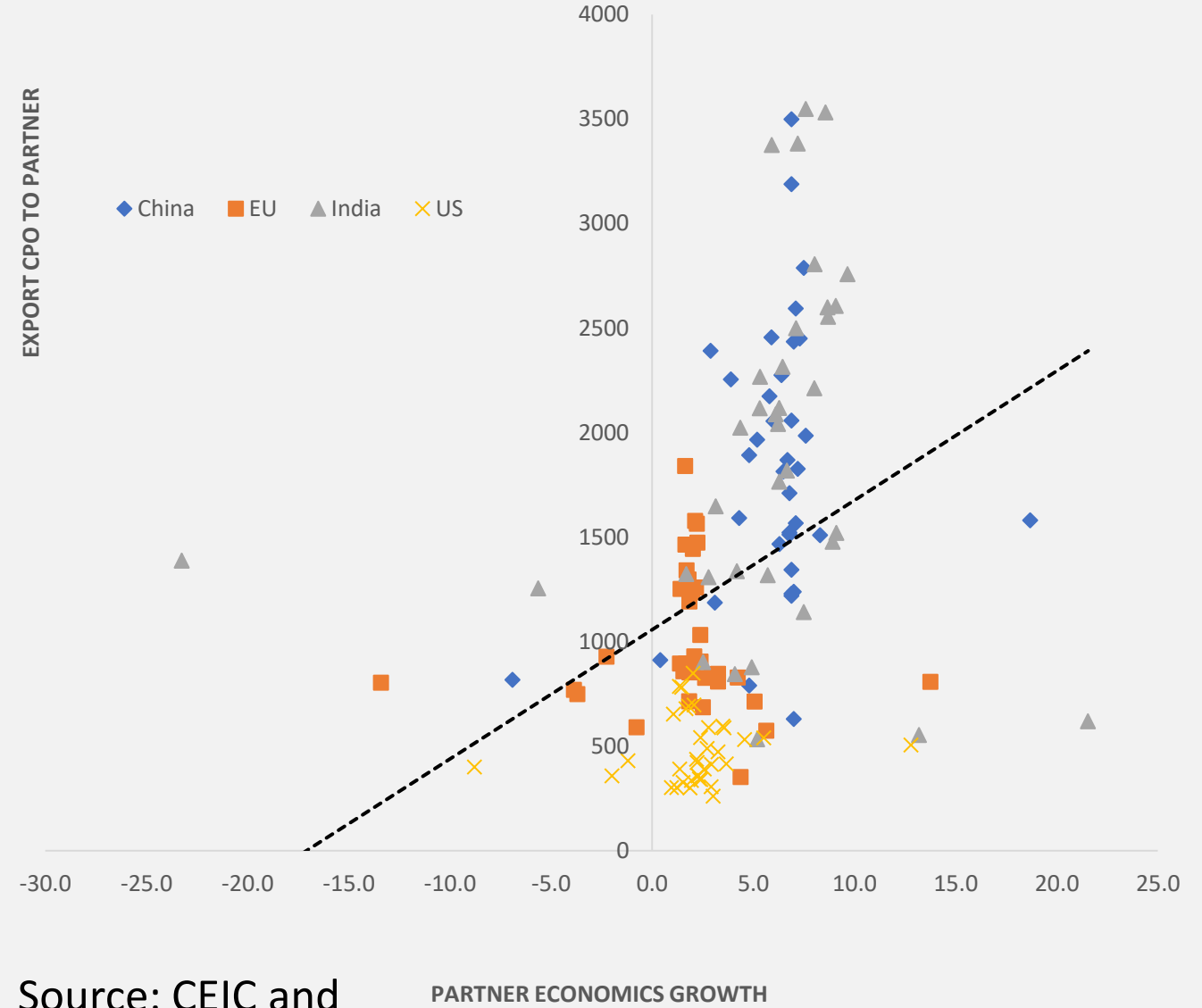
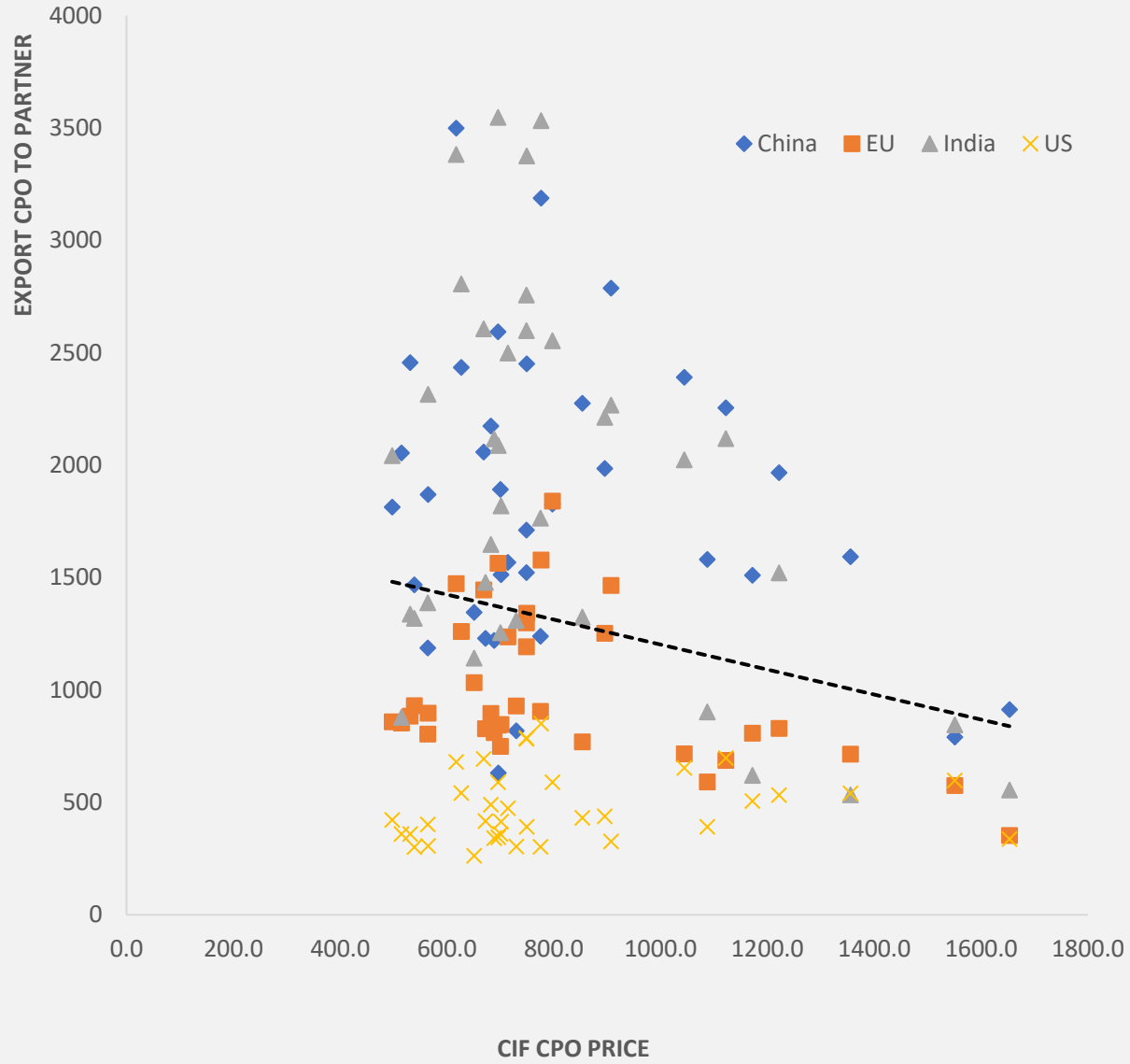
Growth Projection



Source: IMF

| (real GDP, annual percent change)                  | ESTIMATE   | PROJECTIONS |            |
|--|------------|-------------|------------|
|  | 2022       | 2023        | 2024       |
| <b>World Output</b>                                | <b>3.4</b> | <b>2.9</b>  | <b>3.1</b> |
| <b>Advanced Economies</b>                          | <b>2.7</b> | <b>1.2</b>  | <b>1.4</b> |
| United States                                      | 2.0        | 1.4         | 1.0        |
| <b>Euro Area</b>                                   | <b>3.5</b> | <b>0.7</b>  | <b>1.6</b> |
| Germany  | 1.9        | 0.1         | 1.4        |
| France   | 2.6        | 0.7         | 1.6        |
| Italy  | 3.9        | 0.6         | 0.9        |
| Spain  | 5.2        | 1.1         | 2.4        |
| Japan  | 1.4        | 1.8         | 0.9        |
| United Kingdom                                     | 4.1        | -0.6        | 0.9        |
| Canada   | 3.5        | 1.5         | 1.5        |
| <b>Other Advanced Economies</b>                    | <b>2.8</b> | <b>2.0</b>  | <b>2.4</b> |
| <b>Emerging Market and Developing Economies</b>    | <b>3.9</b> | <b>4.0</b>  | <b>4.2</b> |
| <b>Emerging and Developing Asia</b>                | <b>4.3</b> | <b>5.3</b>  | <b>5.2</b> |
| China  | 3.0        | 5.2         | 4.5        |
| India  | 6.8        | 6.1         | 6.8        |
| <b>Emerging and Developing Europe</b>              | <b>0.7</b> | <b>1.5</b>  | <b>2.6</b> |
| Russia   | -2.2       | 0.3         | 2.1        |
| <b>Latin America and the Caribbean</b>             | <b>3.9</b> | <b>1.8</b>  | <b>2.1</b> |
| Brazil   | 3.1        | 1.2         | 1.5        |
| Mexico   | 3.1        | 1.7         | 1.6        |
| <b>Middle East and Central Asia</b>                | <b>5.3</b> | <b>3.2</b>  | <b>3.7</b> |
| Saudi Arabia                                       | 8.7        | 2.6         | 3.4        |
| <b>Sub-Saharan Africa</b>                          | <b>3.8</b> | <b>3.8</b>  | <b>4.1</b> |
| Nigeria  | 3.0        | 3.2         | 2.9        |
| South Africa                                       | 2.6        | 1.2         | 1.3        |
| <b>Memorandum</b>                                  |            |             |            |
| <b>Emerging Market and Middle-Income Economies</b> | <b>3.8</b> | <b>4.0</b>  | <b>4.1</b> |
| <b>Low-Income Developing Countries</b>             | <b>4.9</b> | <b>4.9</b>  | <b>5.6</b> |

# Export, price and world economic growth

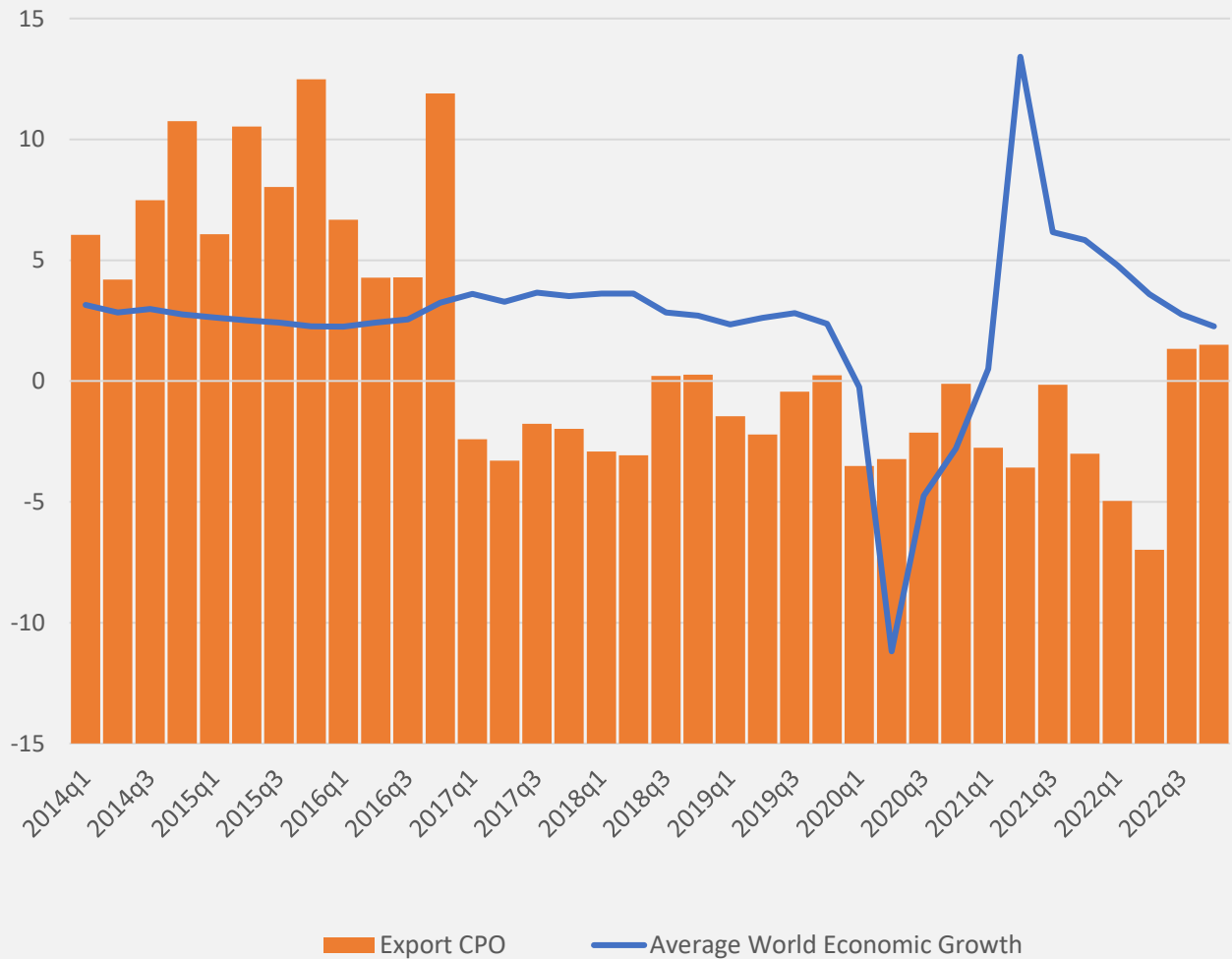


Source: CEIC and Gapki (Processed)

Figure shows considerable positive correlation between economic growth and volume of export of Indonesian palm oil products.

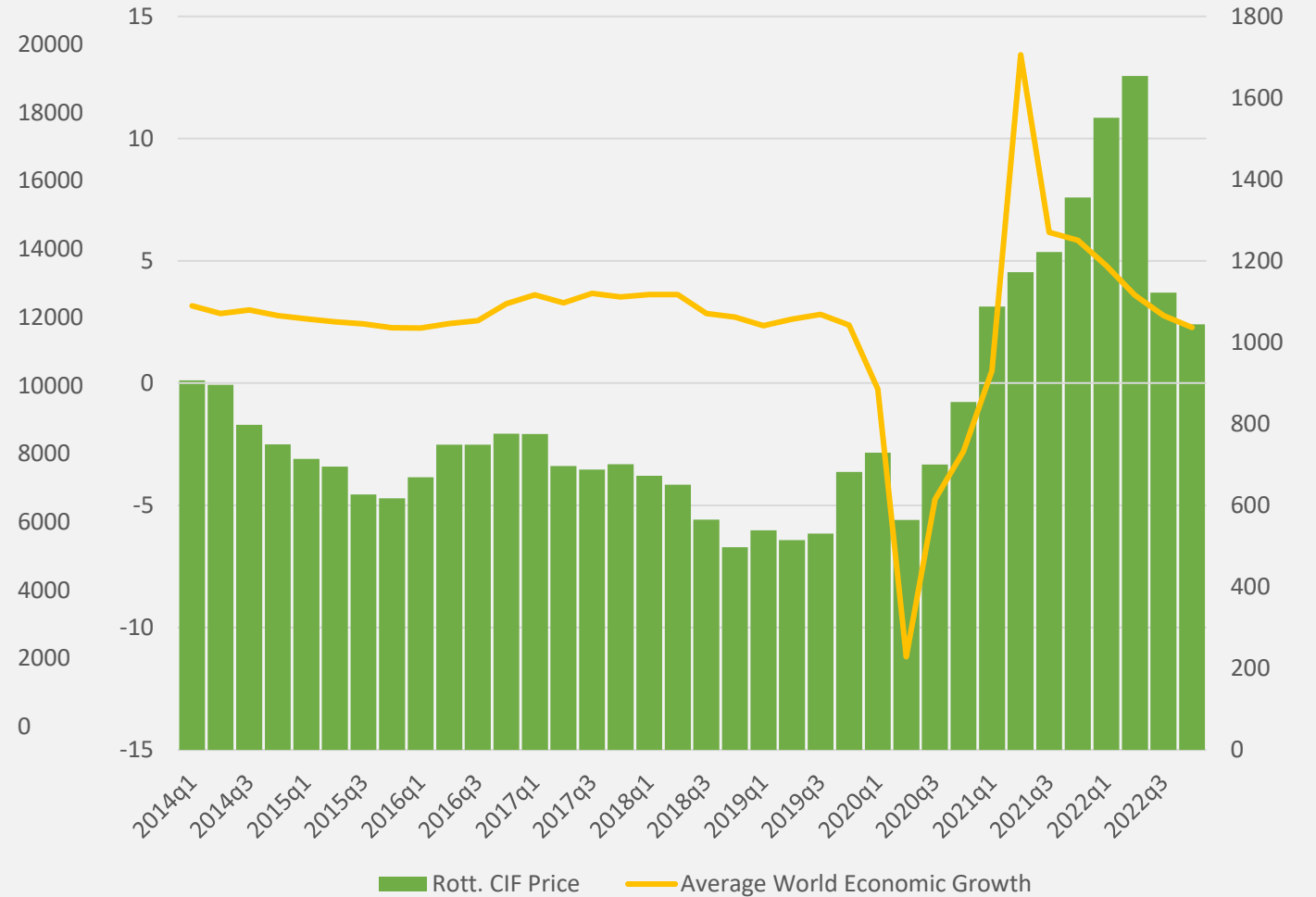
# Economic growth, export and price of pam oil

## Palm Oil Export and World Economic Growth



Source: Gapki and CEIC (Processed)

## Palm Oil Price and World Economic Growth

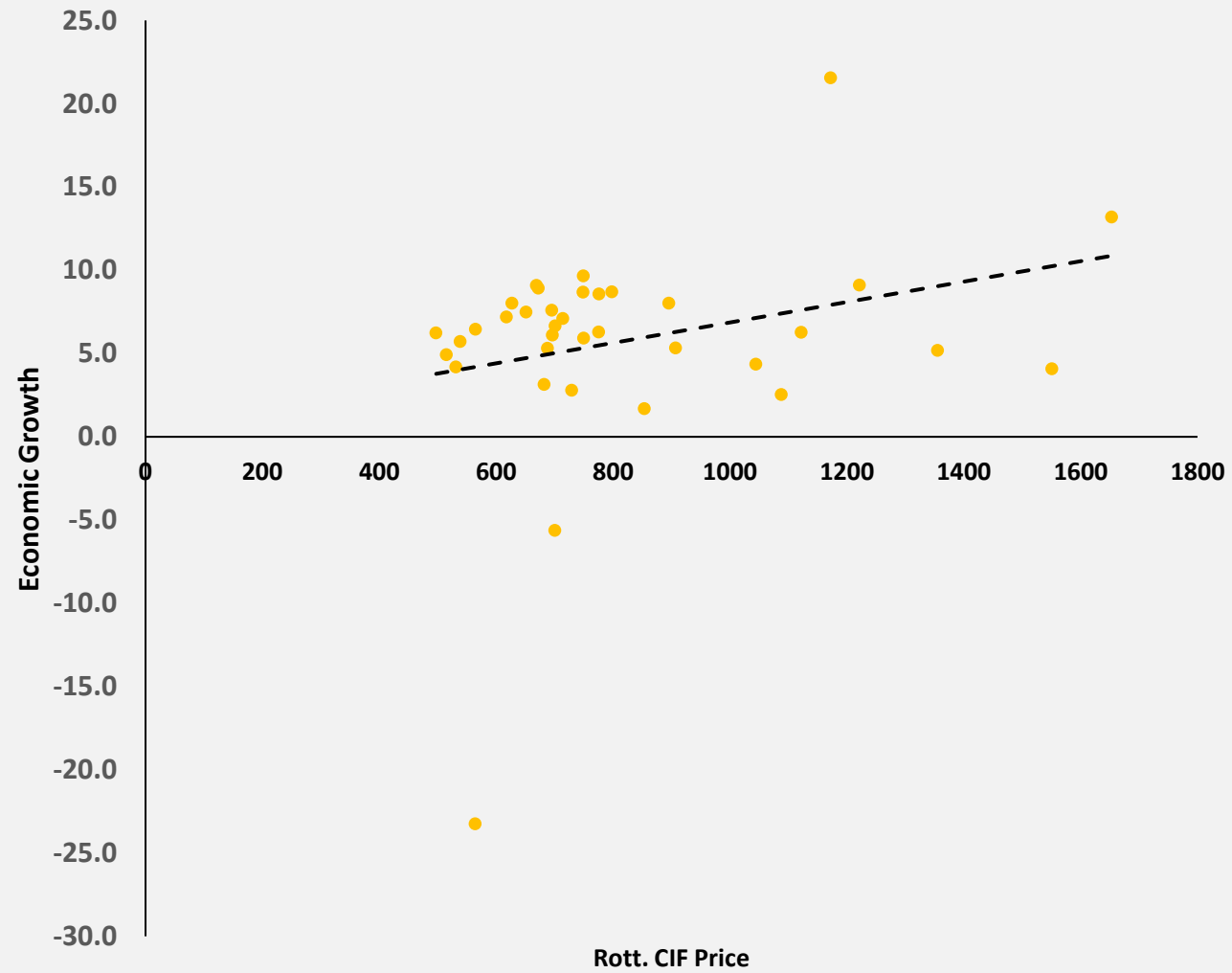


Source: Gapki and CEIC (Processed)



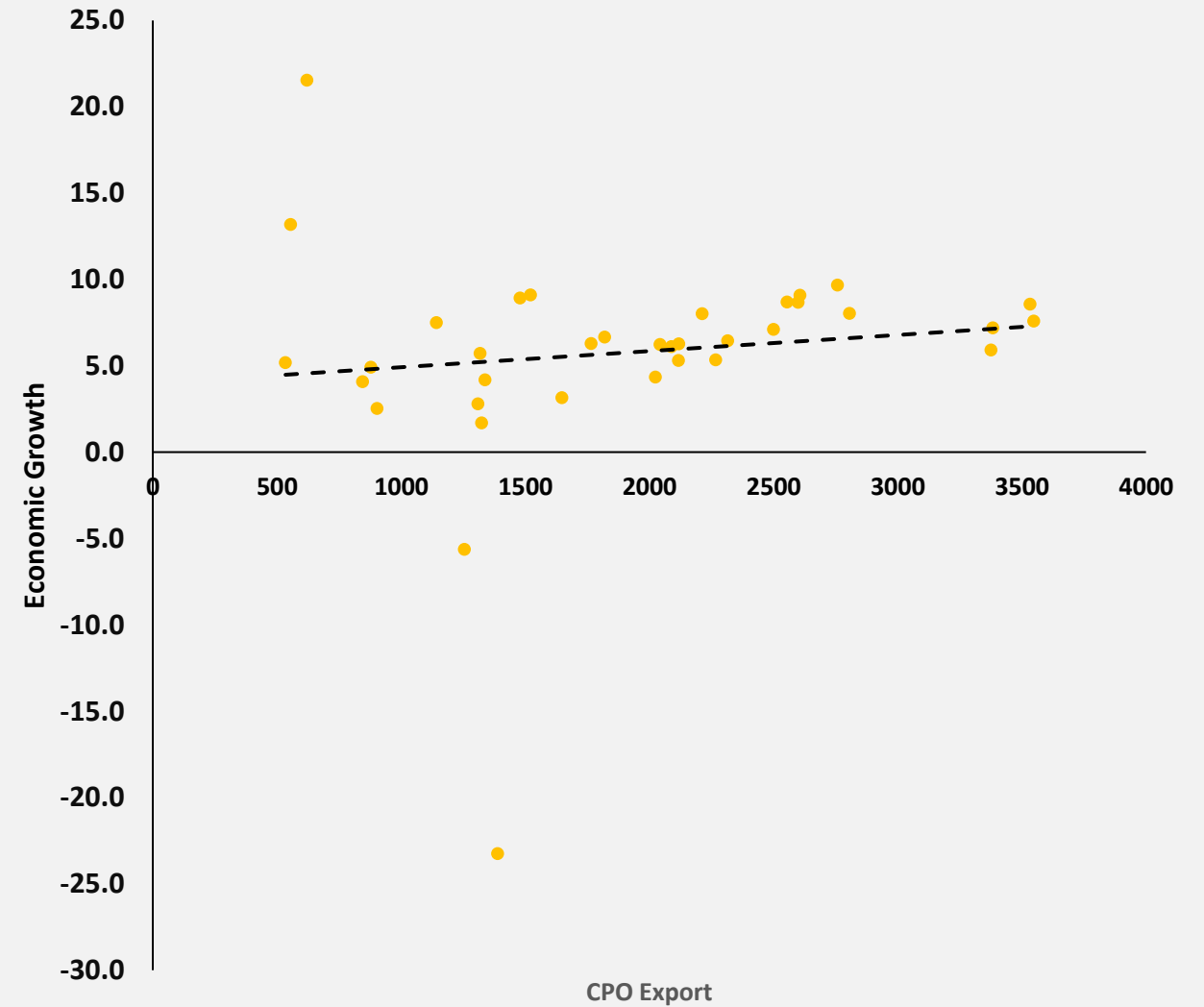
# India economic growth, export and price of palm oil

## India Economics Growth and Palm Oil Price



Source: CEIC and Gapki (Processed)

## India Economics Growth and Palm Oil Export

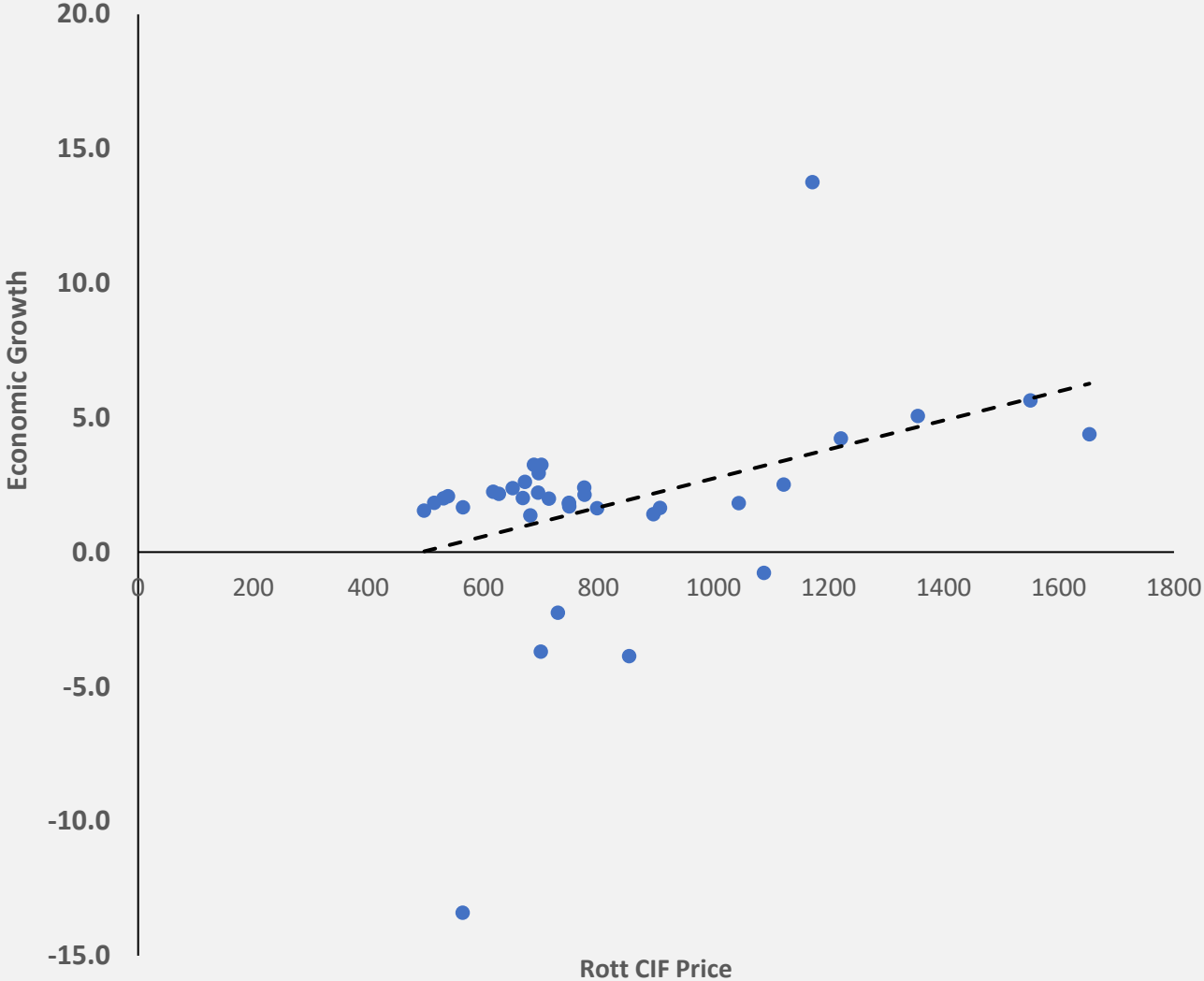


Source: CEIC and Gapki (Processed)



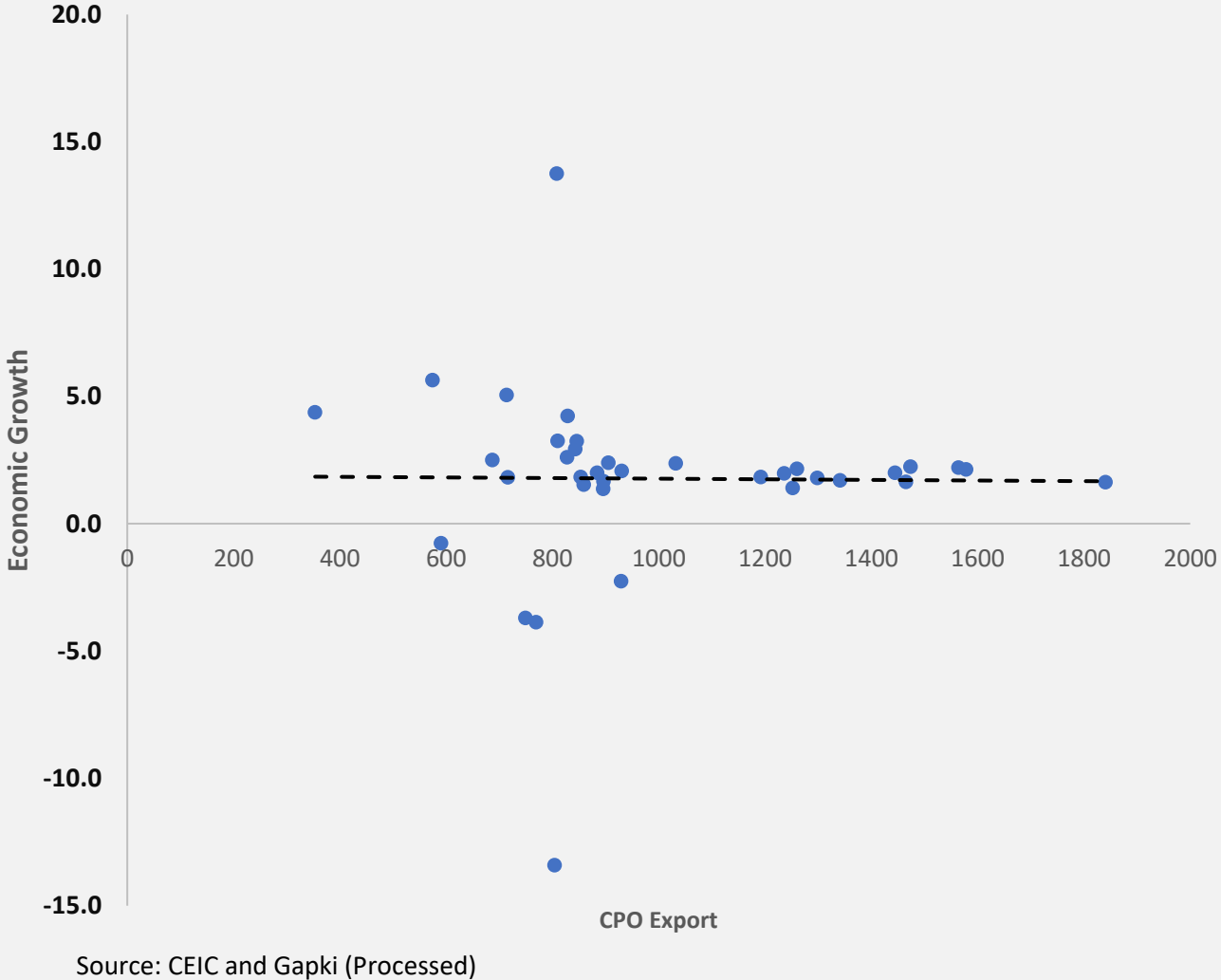
# EU economic growth, export and price of palm oil

EU Economics Growth and Palm Oil Price



Source: CEIC and Gapki (Processed)

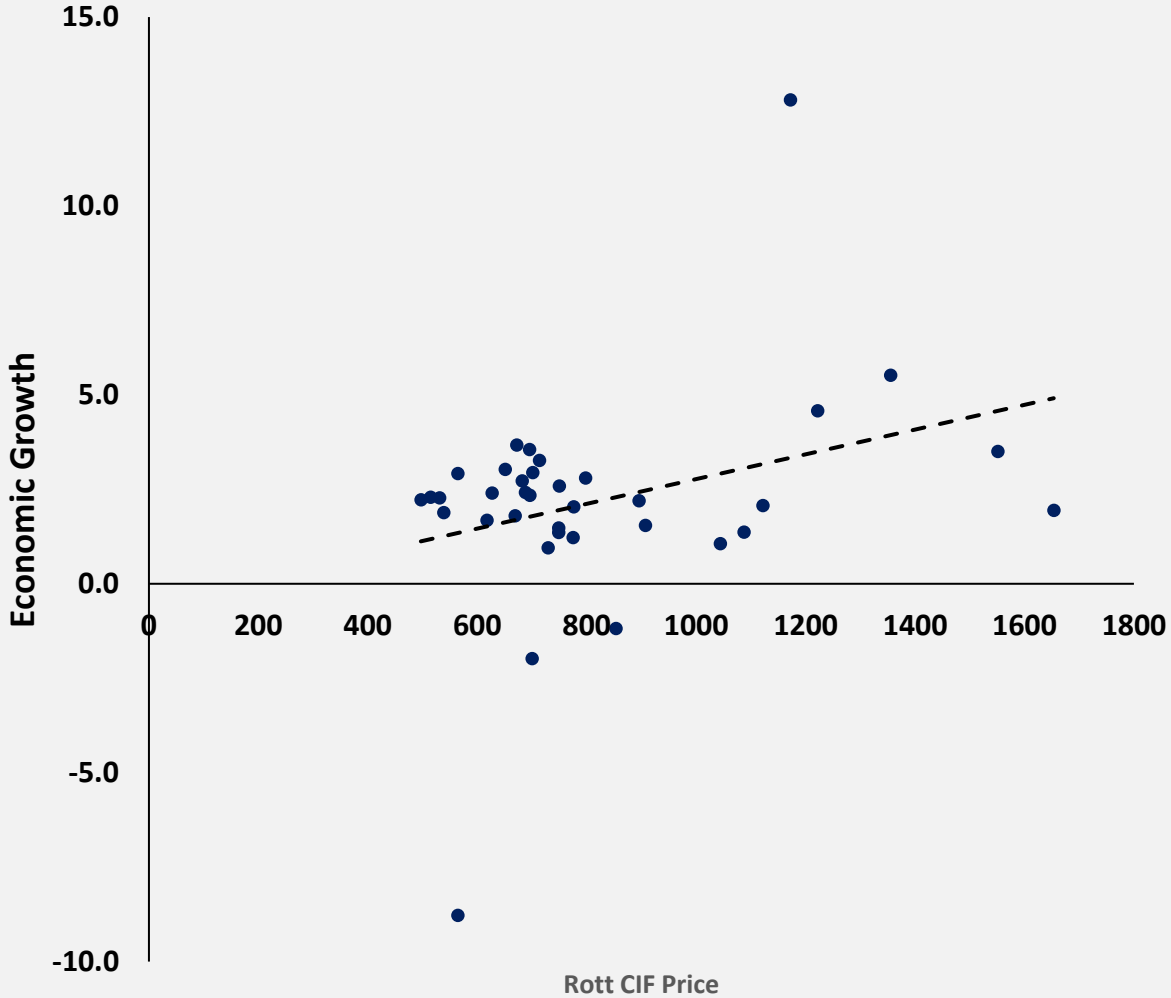
EU Economics Growth and Palm Oil Export



Source: CEIC and Gapki (Processed)

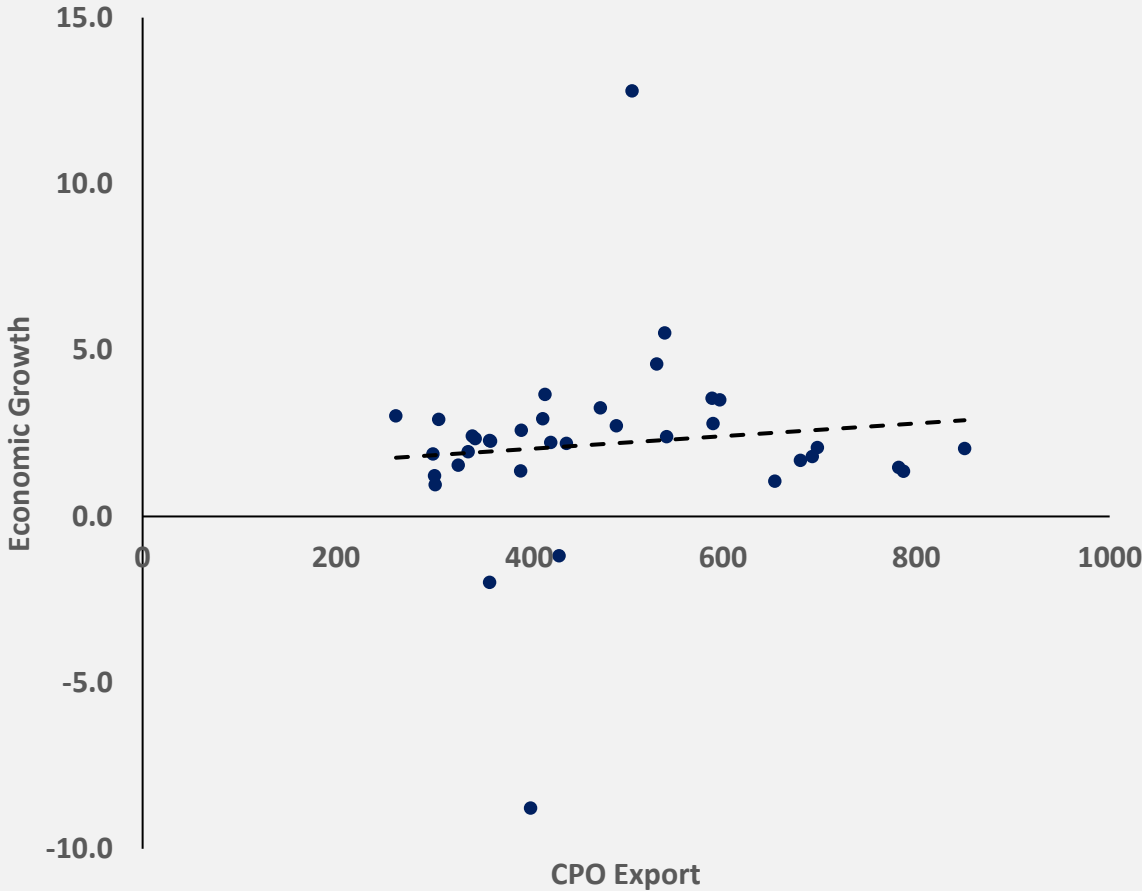
# US economic growth, export and price of palm oil

United State Economics Growth and Palm Oil Price



Source: CEIC and Gapki (Processed)

United State Economics Growth and Palm Oil Price



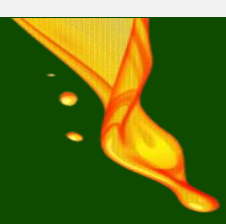
Source: CEIC and Gapki (Processed)



## An Update on DMO and DPO Policy



- DMO and DPO is continued for stabilizing cooking oil prices especially facing the month of Ramadhan.
- The amount of domestic market obligation increased to 450,000 ton/month until May 2023.
- There is no change in retail price of Minyak Kita—government sponsored cooking oil which is Rp 14,000/liter.
- Export permit is being frozen until May 2023.
- Threshold of export levy is US \$ 860/mt.



## Changes in DMO (Domestic Market Obligation) Policy: Policy Recommendations (based on study by INDEF and LPEM UI)



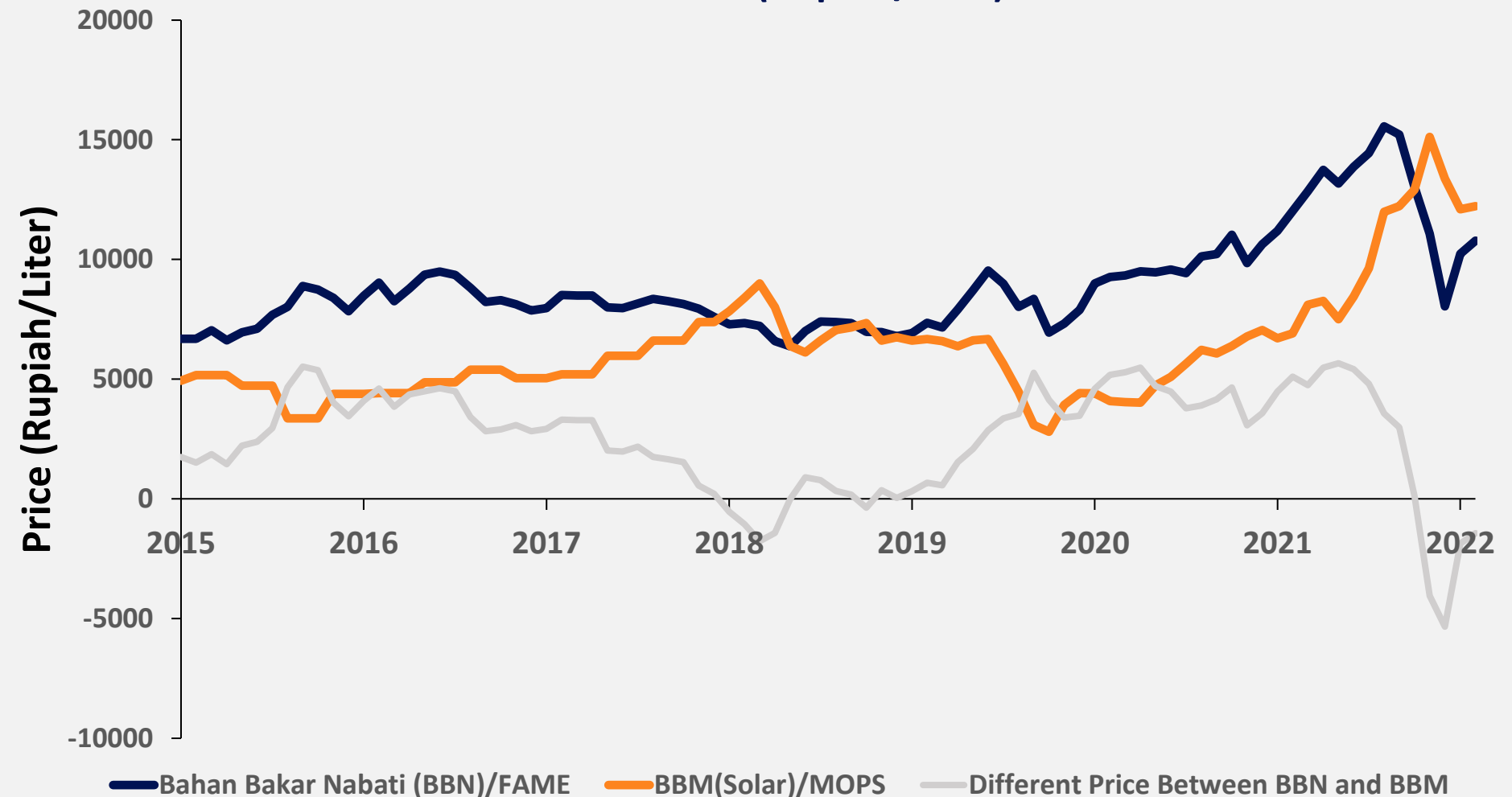
- The policies of DMO (Domestic Market Obligation) and DPO (Domestic Price Obligation) have a small positive effect from the macroeconomic side, but on the other hand, it has negative impact on various economic sectors. A relatively stable policy is needed to maintain consumption of cooking oil in the domestic market.
- However to be effective, government should have adequate stock of cooking oil to be able to maintain stable cooking oil prices.
- DMO (Domestic Market Obligation) and DPO (Domestic Price Obligation) is no longer needed under current situations. Not only that these policy creates market distortion and have negative impact on smallholder farmers but also encourages various kind of illegal economic activities and moral hazard in the domestic market while it creates uncertainty in global markets.

# Changes in Mandatory Biofuel Blending Policy: Comparisons between price of FAME and MOPS

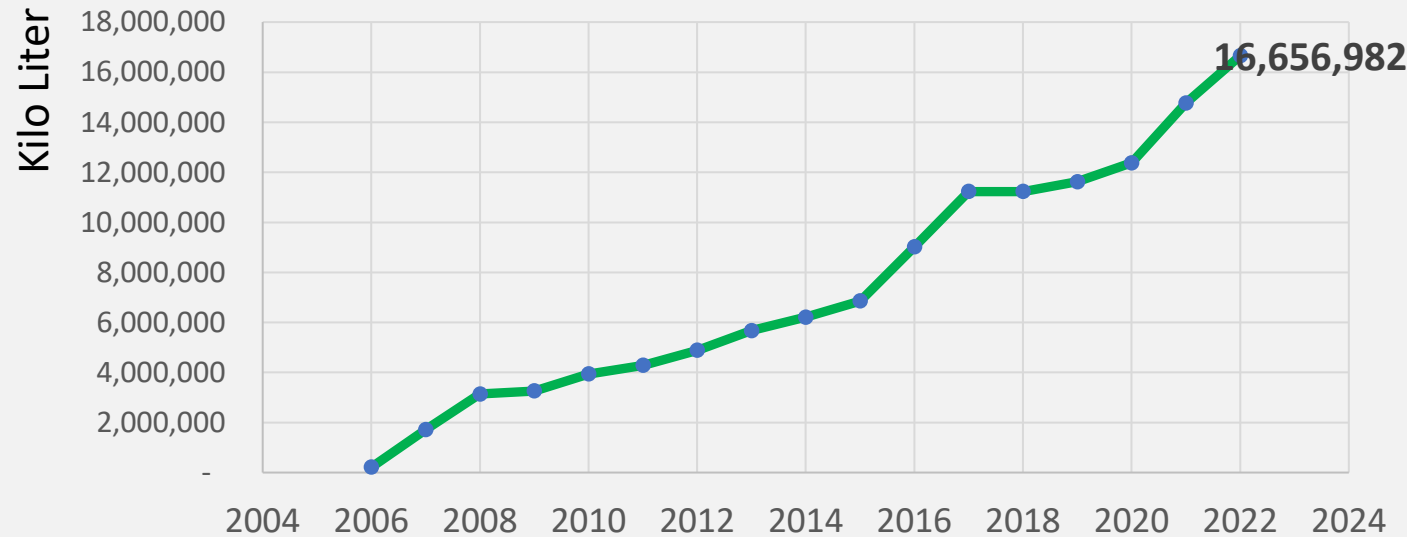


- Government increased its blending to B35 starting February and later on to B40 next year. It may be right measure in the light of weak world demand for palm oil. However, an increase in blending policy have to consider net social benefits of the various blending policy.

**FAME and MOPS Price Comparison  
2015-2022 (Rupiah/Liter)**



# Changes in Mandatory Biofuel Blending Policy



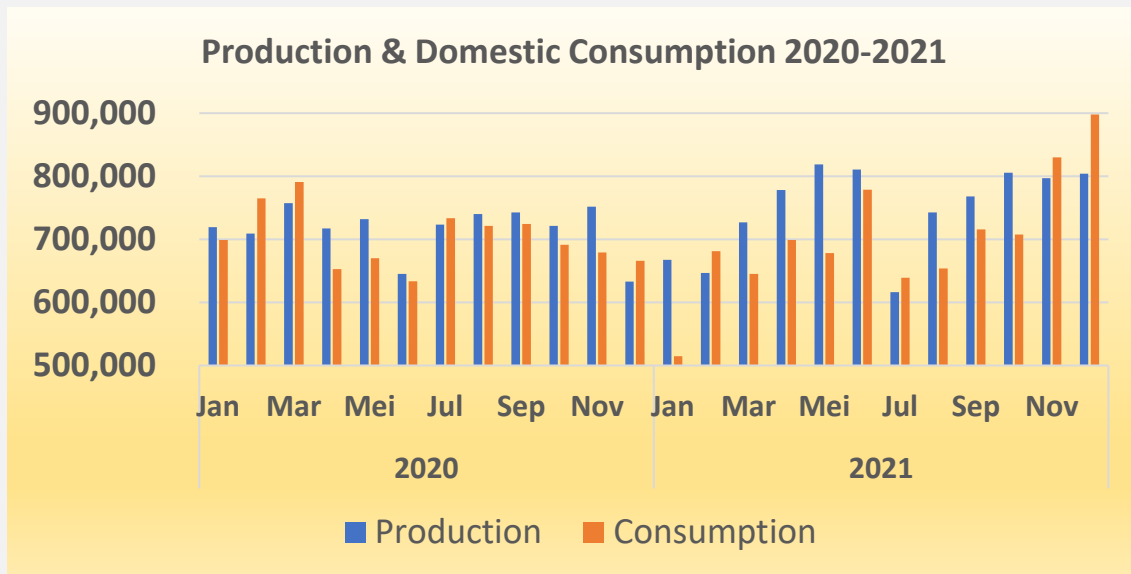
**2020**  
B30

- Production **8,591,368 kl**
- Domestic **8,426,152 kl**

**2021**  
B30

- Production **8,979,523 kl**
- Domestic **8,438,550 kl**

Kilo Liter



Govt implements B-35 blending biofuel starting February 2023. Thus, there will be additional of 2,0-2,5 million tons of CPO consumed domestically.

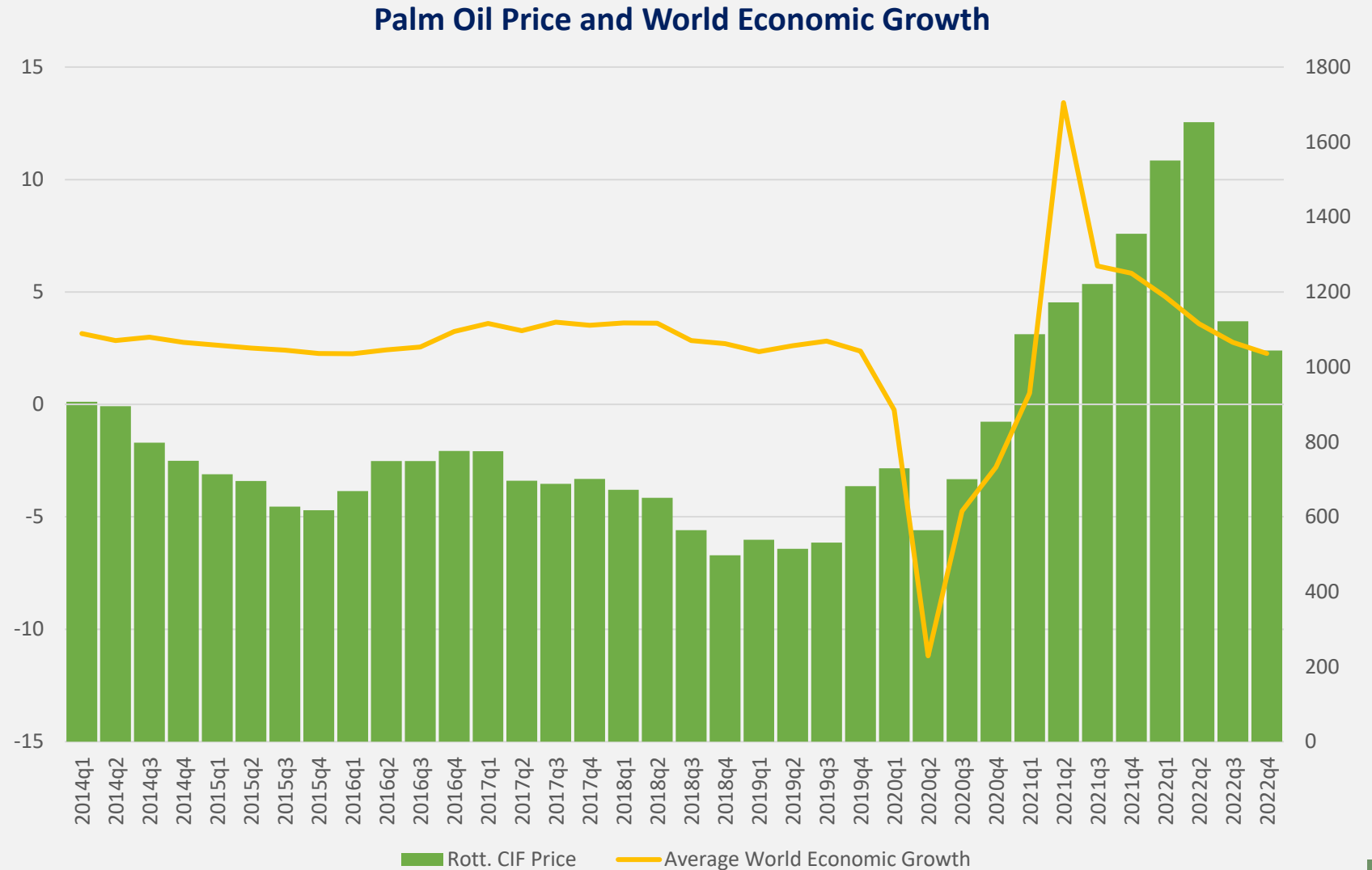


Source, APROBI



## Palm oil price and world economic growth

- The world economy is predicted entering recession next year as many predicted. IMF and World Bank revised its growth projection from 3,2% to around 2,9%.
- This will impact demand for vegetable oils including palm oil. There is considerable correlation between economic growth and price palm oil.

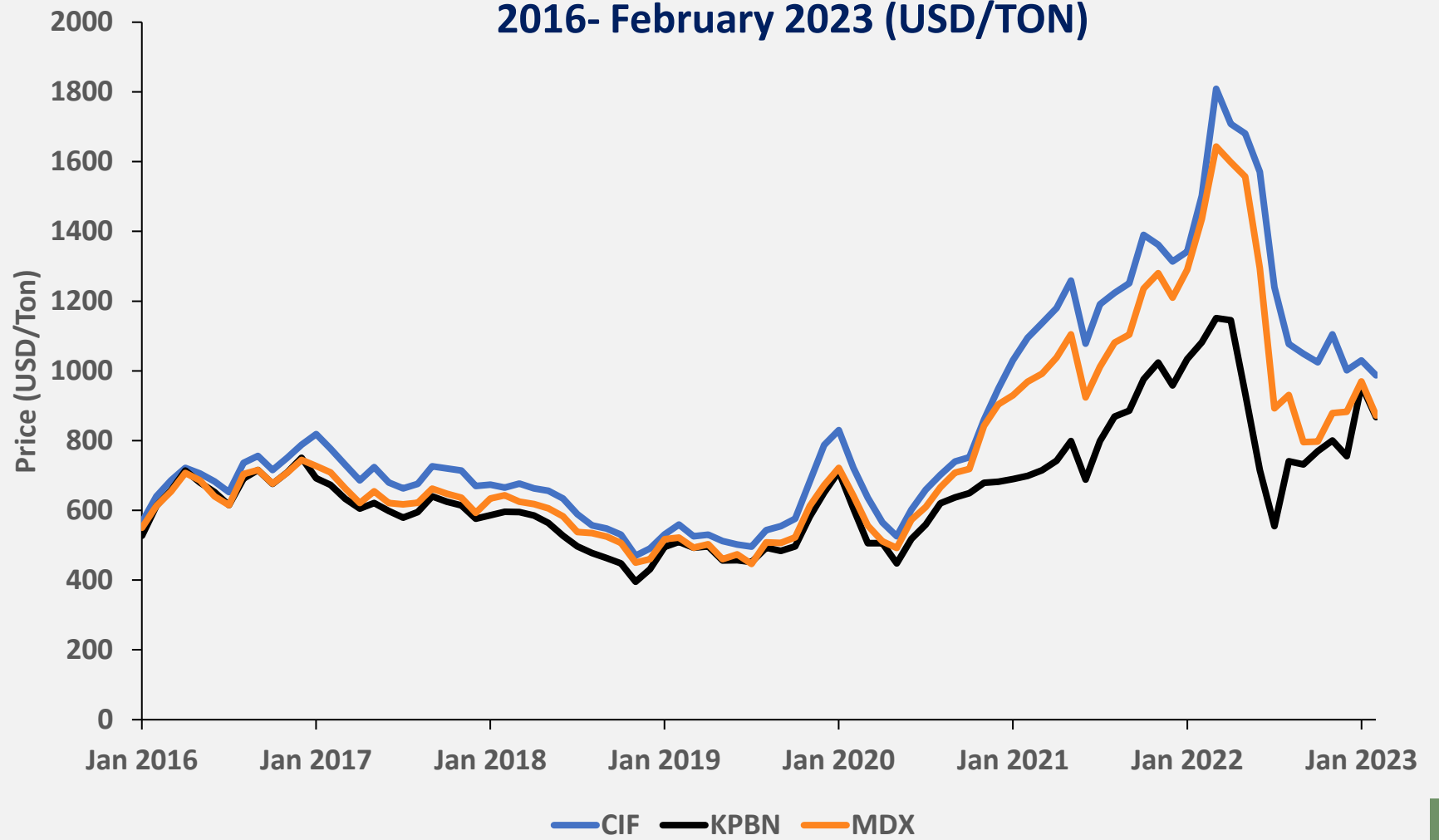




## Price comparison between CIF, MDX and KPB (Domestic)

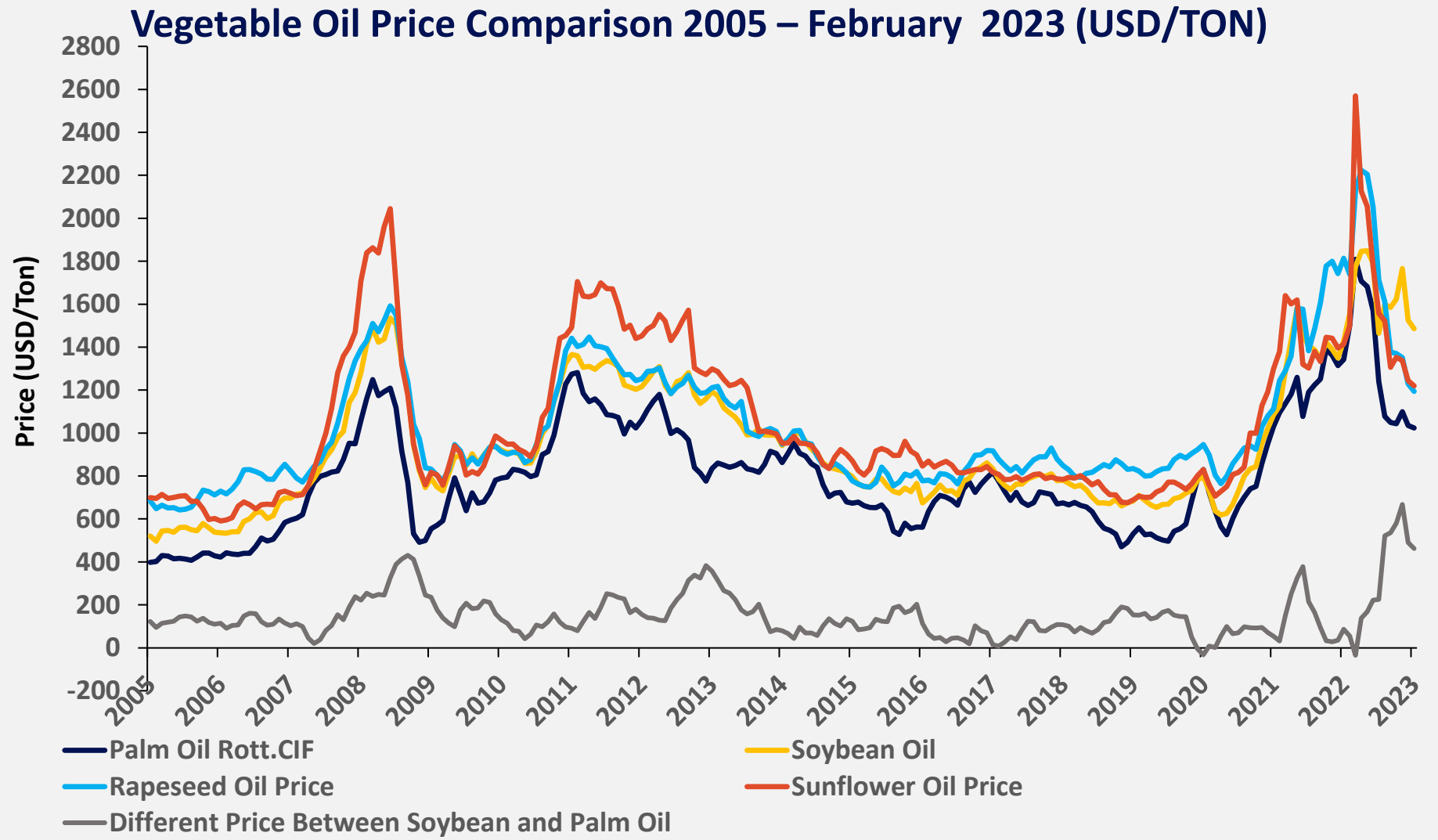
- The difference between prices of CPO in Rotterdam (CIF), MDX Malaysia and KPB (FOB) widen especially after government imposed various trade restrictions in 2021 in response to the increase in cooking oil prices in the domestic markets including export banned.
- The difference of these then narrowed since government revised and relax its policy.
- But now, since government revised its DMO and DPO policies, the difference would again be widen.

**Comparison Palm Oil Price Between CIF, KPBN, MDX  
2016- February 2023 (USD/TON)**



## Vegetable Oil Prices Comparison

- Comparison of various vegetable oil prices show that the difference of prices between soybean oil and palm oil widen in the last two years.
- This shows that palm oil continue to have competitiveness among vegetable oils.

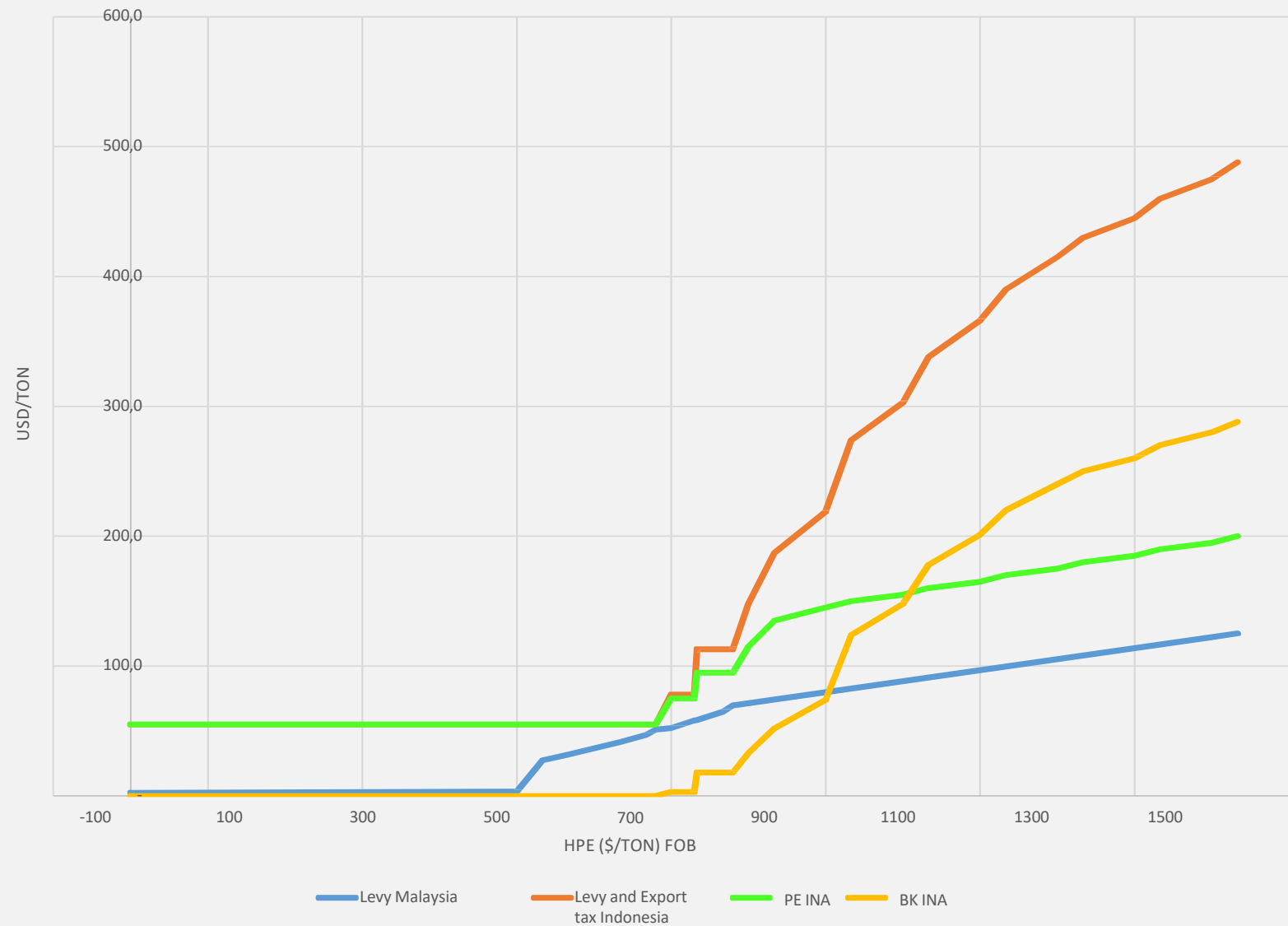


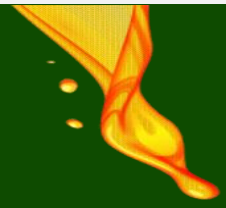
# Export levy INDONESIA VS MALAYSIA

Indonesia: Export levy  
and tax

Malaysia: export duty &  
Cess

Indonesia burden on  
levy >>> Malaysia's





## Production Tight:

- a. Weather condition
- b. Lack of fertilizer used especially at smallholder farmers
- c. No productivity improvement
- d. Replanting program
- e. An increase in domestic consumption (biofuel program and DMO policy)

## Demand Uncertainty:

- a. World Economic Ressionion
- b. An increase in palm oil consumption (China Factor)

## Price volatility:

- a. Weak demand
- b. Tight supply
- c. Uncertainty in the market

In 2023, we estimate that production of palm oil will be lower than in 2022.

In 2023, we estimate that total consumption of palm oil 50,762 million ton (24,342 Domestic demand and 26,420 Export) lower than 51,875 million ton in 2022.

Price will be in declining trend in 2023 in the short term. From January 2022 to December 2022, palm oil CIF Rotterdam price decreased by -23,8%.



## Concluding remark



1. Production of Indonesian palm oil industry is in decline trend while on the demand side there is shift in the consumption from exports to domestic consumptions.
2. We predict that both production and consumption will slightly decline next year. So does the price on account of the likely world economic recession.
3. Government policy on DMO will have negative impact on export domestic price of Indonesian palm oil 2023.
4. While biofuel mandatory program will have impact on Indonesia's palm oil industry in 2023 in term of price and domestic consumption.
5. In order to boost export and maintain competitiveness of the Indonesian palm oil industry, government should evaluate export tax and levies on palm oil products.



# THANK YOU



**Indonesian Palm Oil Association (GAPKI)**

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