

Another Counterproductive Policy



Key Takeaways

- Government announced to ban palm oil export to help stabilize a soaring domestic cooking price.
- Government approach and policy to address cooking oil affordability has been very inconsistent so far and are less effective towards achieving the goal.
- Banning CPO and derivative product would only cost for USD1.8-2.2bn lower in monthly exports value, triggering lower trade surplus as well as government and business revenue.
- Furthermore it only disrupt supply chain that could push edible oil price higher yet benefitting other country to strengthen their position in the global market.
- One of the alternative to keep cooking oil affordable is to give assistance that compensate the increasing cost borne by middle to low income consumers.
- We expect this program would only cost IDR6.34tn from government budget.

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Inconsistence Policy Approach

Indonesia announced a ban on palm oil exports in order to cool down the soaring cooking oil prices. Ytd cooking oil prices have surged more than 20% for branded packaging, while its crude counterpart only increased by 8%. By banning palm oil export, government expect to ensure adequate supply to stabilize price. This policy is set to be effective on April 28, 2022. Previously government regulation to bring down cooking oil price was to increase DMO from 20% to 30% and setting DPO at IDR9,300/kg including PPN. However, later on March 17, 2022, government lifted off this policy and increased tariffs on export levies of CPO and its derivative products. The upper limit of export levies and export duties on CPO rose to USD675/ton, from USD375/ton. Capping cooking oil price policy at IDR14,000/liter was also introduced but seemed to be problematic and only triggered scarcity.

Assessing the Impacts

CPO and its derivative products have been contributed to 11.52% of Indonesia's total exports in FY21. Last year, Indonesia exported 25.5 mn ton of CPO and derivatives amounted to USD26.67bn or averagely 2.13 mn ton and USD2.22bn per month with average blended export price of USD1,044/ton (FOB). In Jan-22, Indonesia exported ~1.50 mn ton of CPO and its derivative products with the total value of USD1.84bn (note that blended average export price of CPO products rose to USD1,230/ton). Given CPO and derivative product (HS 1511) accounted for more than 80% of animal and vegetable fat and oil exports, so the estimated value of potential loss of monthly export value is around USD1.8-2.2bn.

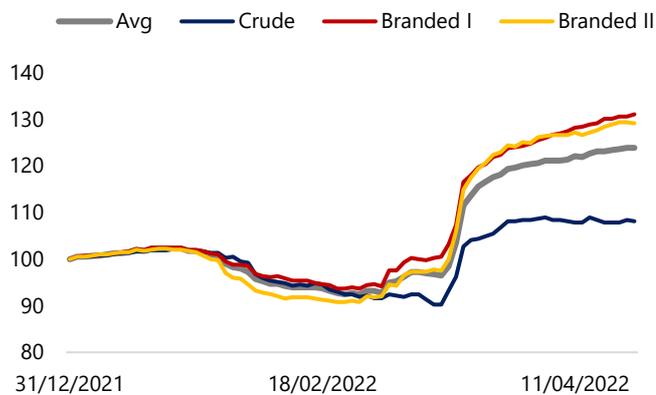
A Counterproductive Policy

We think government decision to ban palm oil export is a counterproductive policy measure that wouldn't solve the real problem which is a widening price gap between domestic and international market. It only causes unnecessary drop in exports value and volume, potentially lower government revenue as well as a decline in business income. Some of leading producers such as AALI and SMAR are hit hard by this policy include as the export revenue contributed to more than 30% total revenue. This policy may also increase global CPO and other edible oil prices. However, unfortunately, Indonesia as the largest producer of CPO could not capitalize and only favoring Malaysia as a competitor to strengthen its position in the global market.

Alternative Solution

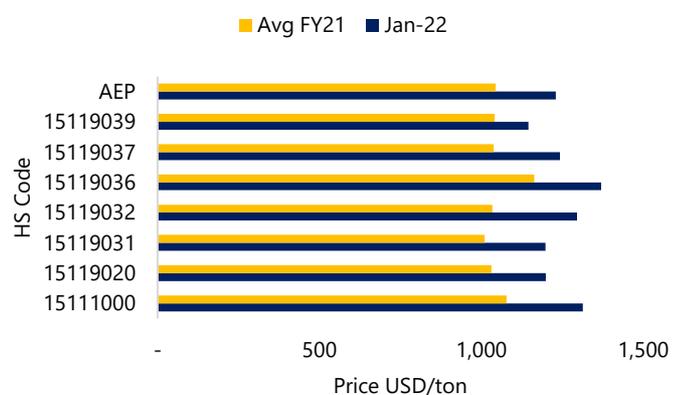
Rather than implementing price cap that may discourage production or banning exports that cause a drop in trade surplus, one of the alternative solution to keep cooking oil affordable for middle to low income consumers is to give assistance through direct cash transfer. This could be added to existing social protection program and even we think government still have a fiscal room to broaden the beneficiaries. Based on Statistics Indonesia data, average monthly per capita consumption of cooking oil in Indonesia is at 1.2 liters. Assume that a family of 3-4 persons, so that monthly consumption would be equivalent to 4.8 liter, with 20 mn family to receive the subsidy and economic cost borne by government is IDR11,000/liter given current cooking oil price already hit IDR25,000/liter, so that monthly cost of subsidy would only take IDR1.06tn. If the program is set to have 6 months time frame, it would only cost IDR6.34tn based on our scenario. We think government does have capability to cover such a small subsidy given a budget surplus of IDR10tn in 1Q22.

Exhibit 1. Cooking oil prices continue to soar (Dec-21 = 100)



Sources : PIHPS Nasional, MNCS

Exhibit 2. FOB export prices of CPO & derivative have increased



Sources : Statistics Indonesia, MNCS

Exhibit 3. CPO & derivative exports breakdown in value and volume

HS Code	Category	Jan-22			FY21 (Cumulative)	
		Kg	USD (FOB)	Avg Price/Ton	Kg	USD (FOB)
15111000	Crude palm oil, not chemically modified	63,306,840	83,169,459	1,314	2,498,058,026	2,693,579,210
15119020	Refined palm oil, not chemically modified	589,754,415	707,455,742	1,200	7,549,745,842	7,789,501,569
15119031	Solid fractions of refined palm oil, not chemically modified, with iodine value 30 or more, but less than 40	144,311,683	172,914,368	1,198	2,196,298,969	2,218,781,846
15119032	Solid fractions of refined palm oil, not chemically modified, with iodine value 40 or more	22,470,907	29,132,942	1,296	529,351,831	547,694,320
15119036	Liquid fractions of refined palm oil, not chemically modified, in packing of a net weight not exceeding 25 kg	67,569,206	92,640,040	1,371	1,327,331,196	1,544,343,628
15119037	Liquid fractions of refined palm oil, not chemically modified, in packing of a net weight >25kg, with 55<=iodine value<60	594,615,296	739,024,888	1,243	11,126,463,449	11,553,608,391
15119039	Liquid fractions of refined palm oil, not chemically modified, packing net weight >25kg, iodine value=60	13,428,016	15,389,352	1,146	294,519,291	306,729,670
15119049	Solid fractions of unrefined palm oil, not chemically modified, with packing of a net weight exceeding 25 kg	-	-	-	10,201,545	10,889,217
Total		1,495,456,363	1,839,726,791	1,230	25,531,970,149	26,665,127,851

Sources : Statistics Indonesia, MNCS

Exhibit 4. Government assistance assumption

Indicators	Unit	Value
Per capita consumption/month	Liter	1.2
Avg persons per family	Persons	4.0
Family consumption/month	Liter	4.8
Beneficiaries	mn Families	20
Total consumption/month	mn Liter	96
Current cooking oil price	IDR/Liter	25,000
Expected cooking oil price	IDR/Liter	14,000
Cost of subsidy	IDR/Liter	11,000
Cost of subsidy/month	IDR mn	1,056,000
Cost of subsidy for 6 months	IDR mn	6,336,000

Sources : Statistics Indonesia, MNCS

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