

Palm Oil Sector Relies On Domestic Demand As Exports Drop

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Wartawan : Norman Harsono
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Norman Harsono

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Growth in demand for palm oil this year will be driven by domestic consumption as exports drop amid the COVID-19 pandemic, according to the Indonesian Oil Palm Association (GAPKI).

Indonesia, the world's top palm oil producer, is expected to raise domestic consumption by 1.2 percent year-on-year (yoy) to 15.8 million tons in 2020, GAPKI data unveiled on Sept. 1.

The growth will be entirely driven by the government's 30 percent palm oil-mixed biodiesel (B30) program, which is expected to offset lower domestic demand for palm-oil based groceries, similar data reveals.

"We absolutely cannot export biodiesel this year," said GAPKI secretary-general Togar Sitanggang at a discussion hosted by MarkPlus on Sept 1.

Palm oil, which is Indonesia's second-biggest export behind coal, is regularly touted as a solution to the country's gaping trade deficit, yet GAPKI data shows that the palm oil industry is bracing for an about turn in terms of export volume this year.

The commodity's exports will drop 18 percent yoy to 24.92 million tons this year, mainly as the European Union, China and India shudder from the ongoing COVID-19 pandemic, according to GAPKI data.

The three key markets account for half of the country's total exports. Togar explained that apart from the B30 program, low crude oil prices worldwide had made biodiesel uncompetitive with its fossil fuel counterpart.

Even though Indonesia's own consumption of subsidized

FAME, a key biodiesel ingredient, is expected to fall 13.6 percent below the annual allocation of 9.6 million kiloliters, the government plans to maintain the allocation "in case things change".

In hopes of making biodiesel cheaper, the government has been injecting more money into its biodiesel subsidy fund (BPD) since June, when the Finance Ministry raised crude palm oil (CPO) export levies by US\$5 to \$55 per ton.

However, "sustained low crude oil prices are a major risk to sustainability of the fund, and in turn to biodiesel and CPO demand in Indonesia", noted credit rating agency Fitch Ratings in a report on Sept. 14.

Global palm oil prices reached their lowest point this year at 2,000 ringgit (\$484.2) per ton on May 6 but have since rallied

to 2,995 ringgit on Thursday, according to the global benchmark Bursa Malaysia Derivatives.

Despite the lower export volume, Togar expected export values to be "the same as last year, around \$20 billion" as high palm oil prices compensate for lower sales volume.

"With the economic slowdown, people's purchasing power will, of course, go down and so will consumption," said Togar.

Gapki sees China as the bright spot for palm exports this year as the world's second-largest economy is among the countries expected to book positive economic growth this year at 1.2 percent based on an International Monetary Fund estimate.

China's palm oil consumption is also expected to rise as consumption of soybean — a key substitute for palm oil — falls due to bad

weather in the soybean-producing Americas and slow soybean processing activities in China.

"China is likely to buy more palm oil, even though palm oil does not form the national reserve, to fill possible gaps," read a Council of Palm Oil Producing Countries (CPOPC) report in July.

Combined with the low soybean production, low palm oil output from Malaysia, the world's second-biggest palm oil producer, has kept palm oil prices "much better" than expected, Fitch wrote.

Malaysia, whose plantations mainly run on labor from Indonesia and Bangladesh, is facing a lockdown-induced labor shortage.

"Nonetheless, we expect prices to decline in the next few months as yields and output increase, due to gradual realization from better weather conditions and seasonality," Fitch said.