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Indonesia

Oilseeds and Products Update

2011

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Report Highlights:

- Post predicts that Indonesian palm oil exports will reach 16.95 million metric tons in marketing year 2010/2011. This is a decrease over the initial estimates of 17.15 million metric tons.
- The Indonesian feed industry used 2.945 million metric tons of soybean meal in marketing year 2010/2011. Post estimates that soybean meal usage will increase to 3.1 million metric tons during the next marketing year.
- Indonesia's soybean production dropped by 6.47 percent to 655,000 metric tons in marketing year 2010/2011 due to decreased harvested areas and stagnant yields.

Post:

Jakarta

Oil, Palm

Production

Indonesia produced 23.6 million metric tons (MMT) of palm oil in marketing year (MY) 2010/2011. Post predicts that Indonesia's palm oil production will continue to grow by an additional 1.8 MMT in the next marketing year due to an increased harvested area and moderate yield improvements.

Indonesia's efforts to maintain strong palm oil production growth is challenged by low productivity of smallholders and spatial planning disagreements between central and local governmental authorities.

Lower Productivity

A recent survey conducted by Ministry of Agriculture showed that the average production of smallholder oil palm plantations stand at 15 – 16 metric tons (MT) of Fresh Fruit Bunches (FFB) per hectare. As well, a survey conducted by the Indonesian Oil Palm Research Institute (IOPRI) found an average oil extraction rate of 20.69 percent for FFB harvested from smallholder plantation in the provinces of North Sumatra, Lampung, Jambi, South Kalimantan, and Papua. The data from those studies suggests that smallholder palm oil production ranges from 3.1 to 3.3 MT per hectare per year.

The use of low quality seeds, poor agricultural practices, marginal land and premature harvesting are some of the main factors that lead to lower levels of productivity in smallholder plantation.
From the perspective of quality and availability of planting material, smallholder planters should not have too many challenges in obtaining certified oil palm seed. Potential performance of oil palm planting materials in Indonesia is actually improving as reflected in both higher potential FFB production and better potential OER (*please see the table below*).

Year	Type	Potential Performance		
		FFB (Ton/Ha)	OER (%)	CPO (Ton/Ha)
1960	DxD, DxT, TxD	23.1	18.8	4.3
1970	DxT, TxD, DxP	23.9	22.6	5.4
1980	DxP	27.2	23.5	6.4
1990	DxP	29.8	23.8	7.1
2000	DxP	30.6	25.8	7.9
2010	DxP	32.0	26.0	8.3

Source: IOPRI

The production capacity of certified oil palm seed at 223 million seeds per year is also higher than domestic seed demand at 80 to 120 million seeds during the normal planting periods. A general lack of knowledge among smallholders is a primary challenges, as planters are unable to differentiate legitimate seeds from the illegitimate ones. Also, distribution problems have occurred due to centralization of seed

producing companies in Northern part of Sumatra, which prevents smallholders from having easy access to certified seeds.

No	Seed Company	Installed Capacity (Million Seeds)	Location	
1	Indonesian Oil Palm Research Institute	50	North Sumatra	Northern Sumatra
2	SOCFINDO	40	North Sumatra	
3	LONSUM	25	North Sumatra	
4	Bakrie Sumatra Plantation	6	North Sumatra	
5	Dami Mas Sejahtera	30	Riau	
6	Tunggal Yunus	25	Riau	
7	Bakti Tani Nusantara	15	Riau Islands	
8	Tania Selatan	5	South Sumatra	Southern Sumatra
9	Bina Sawit Makmur	20	South Sumatra	
10	Sarana Inti Pratama	7	NA	

Source: IOPRI

Spatial Planning Disagreements

The Indonesian forest moratorium will likely not stop oil palm planting and area expansion, as the moratorium will respect the planting permits that have been issued by the Ministry of Forestry (MoF). The data shows that seven provinces on the islands of Kalimantan and Sumatra 11.38 million hectares of land has been allocated for oil palm. 58 percent of the allocated land (6.6 million hectares) is not yet under production. The data suggests that the Indonesian palm oil sector has the capacity to maintain its normal land expansion rate for years to come.

The MoF recently sent a letter to Corruption Eradication Commission (KPK) to prosecute companies and local District Heads in Kalimantan for their alleged involvement in the issuance of illegal plantation and mining permits from 2000 to 2007. According to the MoF, the licensing process was illegal because District Heads allowed plantation and mining activities in forest areas without the proper approval from the MoF. The MoF, based on recent investigation conducted in early 2011, reported nearly 6.8 million hectares of land that that was allocated for plantation in Kalimantan is illegal and subject to revocation.

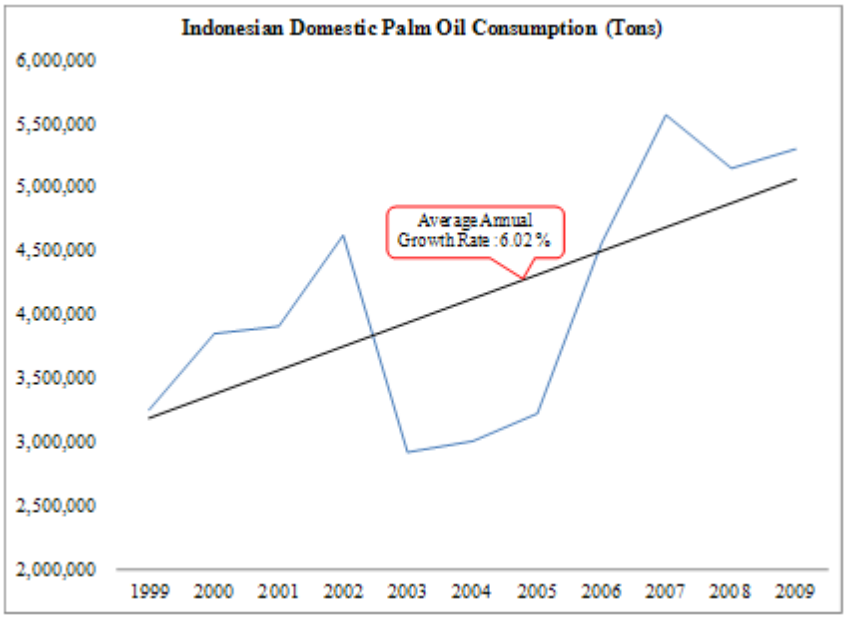
In 2007, the Government of Indonesia has enacted Law No.26/2007 on spatial planning, which was supposed to provide a way solve the conflict between MoF and local governments. The law requires every provincial governors and District Heads to submit a spatial planning draft to Ministry of Public Work (MoPW). The drafts then will be discussed with MoF, MoPW, local government representatives and parliament. Once the drafts are approved by parliament, local governments can legalize the draft and enforce them as a local law on spatial planning.

Thus far, 30 out of 33 provinces, and 198 districts out a total of 497 districts, have filed their drafts with the GOI. The parliament has approved drafts for 10 provinces, and the governors from these provinces are in various stages of adoption. Those 10 provinces are Bali, Banten, Yogyakarta, Jakarta, Central Java, West Java, Lampung, East and West Nusa Tenggara, and South Sulawesi. None of spatial

planning at district level requires approval from the parliament. Disagreements on green open areas have become a factor that delays approval for other provinces and districts, particularly in regions with large forests such as Kalimantan and Papua.

Consumption

The Indonesian Statistical Agency (BPS) data shows that industrial palm oil consumption by medium and large scale industries tends to fluctuate. According to BPS the average annual consumption grew at 6.02 percent within 1999-2009 timeframe. If consumption continues growing at that historical rate, the industry to include food, feed, and biofuel producers will require 6.305 MMT and 6.535 MMT of palm oil in MY 2010/2011 and MY 2011/2012 respectively.



Source: BPS

Trade

Post predicts that Indonesian palm oil exports will reach 16.95 MMT in marketing year 2010/2011. This is a decrease over Post's previous prediction of 17.15 MMT. India and Europe were primary drivers behind weaker levels of Indonesian palm oil exports. The ongoing global economic downturn is the primary reason for Europe's reduced demand, which is down by almost 38 percent. India's lower demand for Indonesian palm oil is mostly because of a new (as of August 2011) Indonesian export tax scheme. Indonesia recently cut export taxes by 50 percent on refined palm oil. The goals of this policy are to raise incentives for downstream industries, secure domestic supplies and reduce volatility in cooking oil prices. India is less interested in importing refined palm oil and wishes to import crude palm oil for its own refineries. Last year's data indicates that Indonesia's refined palm oil exports to India decreased by 15 percent in MY 2009/2010. It is possible that refined palm oil exports to India could decrease by an additional 32 percent by the end of the current marketing year. The growing

capacity of Indian palm oil refineries, which currently stands at 15 MMT, supports India's domestic stocks of refined palm oil. India is signaling that it intends to increase its import duties on refined palm oil with the intent of protecting its refiners from Indonesia's cheaper refined palm oil exports. This may lead to further Indonesian palm oil export declines to India.

Post predicts that Indonesia's palm oil exports are likely to increase in MY 2011/2012 to 18.95 MMT. Post expects this jump as Indonesia will likely begin to export additional palm oil to Pakistan following the signing of the Pakistan-Indonesia Preferential Trade Agreement (PTA). Post expects Indonesian exports to Pakistan to be upwards 800,000 MT in the next marketing year. China and other global markets will also increase their imports of Indonesian palm oil.

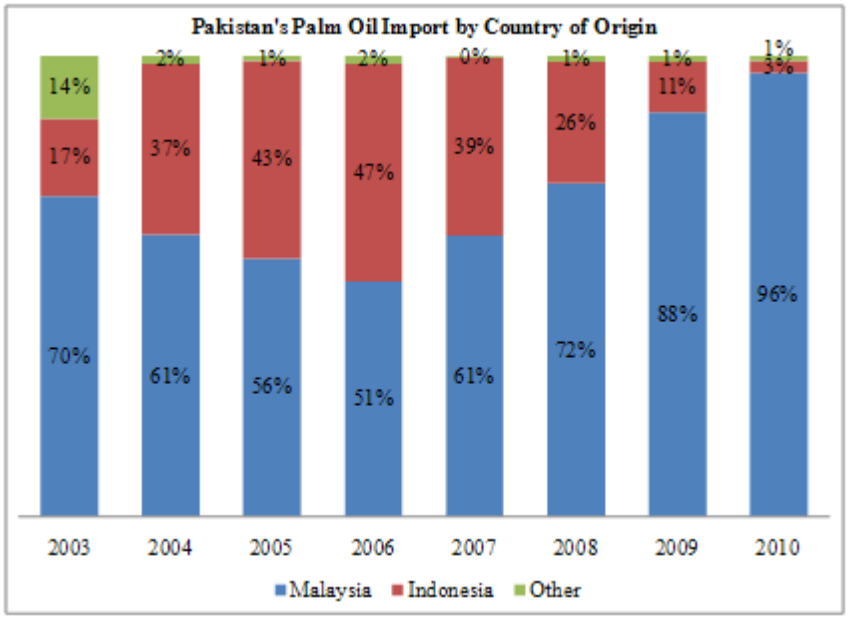
Possible rise in Indian Palm Oil Import Duty

Indonesia has reduced export taxes applied to processed and refined products and has raised export taxes for crude products. The objective is to promote expanded downstream processing of palm oil. Indian refiners have urged their government to raise import duties on Indonesian refined palm oil products, which currently stand at 7.7 percents. The refiners argue that Indonesia's new export tax policy will put the survival of Indian palm oil refineries at risk. The new tax regime may encourage processing plants in Indonesia to produce and to export more refined products to India.

India remains Indonesia's largest palm oil export market for both crude and refined products (33% of total Indonesian palm oil export). The Indian Ministry of Trade (MoT) is currently still reportedly on the sidelines with regard to aspiration of country's palm oil refiners. The growing pressure from the industry, however, may push the Indian MoT to take measures to protect country's domestic palm oil refinery.

Indonesia-Pakistan Preferential Trade Agreement

Nearly 100 percent of palm oil supply to Pakistan comes from Indonesia and Malaysia. After gaining growing market share within 2003 – 2006 periods, Indonesia's share in Pakistan's palm oil market declined significantly since 2007 due to Preferential Trade Agreement (PTA) between Malaysia and Pakistan. The PTA gradually cut the import duty that was previously imposed on Malaysian palm oil from 15 percent to zero percent. Consequently, Indonesian palm oil that is still subject to a 15 percent import duty is less competitive compared to that of Malaysia.



Source: GTIS

The signing of PTA between Indonesia and Pakistan on September 2011 that will become effective in 2012 is expected to provide room for Indonesia to revive the country's palm oil exports to Pakistan. The PTA will cut the import duty imposed on Indonesian palm oil from 15 percent to zero percent in 2012. Reciprocally, Indonesia has to cut import duty imposed on Pakistani Kino citrus oranges from 20 percent to zero percent.

Pakistani palm oil imports have grown annually by 7.06 percent since 2003. Should the growth rate stay constant, the country is expected to import 2.5 MMT of palm oil in MY 2011/2012. If Indonesia can quickly increase its market share from current level at approximately 12 percent to 25-40 percent in the next marketing year, the country can have additional 425,000-800,000 MT of palm oil export in MY 2011/2012.

Ending Stocks

An estimated ending stocks stands at 642,000 MT in MY 2010/2011. Estimated stock levels are higher than that of Post's previous estimate, which are due to a possible drop in exports. Ending stocks in MY 2011/2012 are predicted to slightly decline to 617,000 MT.

Policy

The Minister of Finance recently enacted a new decree on palm oil export taxes in August 2011 to replace Ministry of Finance Decree No. 23/2008. The main differences between the old and new decrees are illustrated in the table below. See appendix 1 for a detailed illustration on the new export tax scheme.

Comparative Items	Old Export Tax Regulation	New Export Tax Regulation
Number of palm oil based products that subject to tax	15 products	29 products
Tax-free palm oil price threshold	Less than or equal to US$ 700 per ton	Less than or equal to US$ 750 per ton
Tax Rate Range (min to max) • Crude products • Pure Refined Products • Mixed Refined Products • Biodiesel (FAME)	 • 1.5 – 25 percent • 1.5 – 23/25 percent • 1.5 – 21/23 percent • 2 – 10 percent	 • 7.5 – 22.5 percent • 3 – 15 percent • 2 – 10 percent • 2 – 7.5 percent

Source: Ministry of Finance of Republic of Indonesia (summarized)

Information on the above table suggests that the new decree will produce a greater tax spread between crude and refined palm oil products. The increased margin is designed to provide stronger economic incentives for palm oil industry to develop downstream products.

The new decree, however, may not transform the Indonesian palm oil sector from being dominated by crude products to refined products in the near future. India and China account for 46 percent of total Indonesian palm oil exports and both countries have well-established palm oil refinery industries. Development of Indonesian palm oil refinery industry may face tough challenges resulting from measures taken by those two countries to protect their domestic refinery industry.

PS&D Table, Palm Oil

Oil, Palm Indonesia	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: May 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	0	0	0	0	0	0	(1000 HA)
Area Harvested	0	6,430	0	6,820	0	7,210	(1000 HA)
Trees	0	964,500,000	0	1,023,000,000	0	1,081,500,000	(1000 TREES)
Beginning Stocks	190	190	242	242	442	642	(1000 MT)
Production	22,000	22,000	23,600	23,600	25,400	25,400	(1000 MT)
MY Imports	49	49	15	55	60	60	(1000 MT)
MY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	22,239	22,239	23,857	23,897	25,902	26,102	(1000 MT)
MY Exports	16,573	16,573	17,150	16,950	19,150	18,950	(1000 MT)
MY Exp. to EU	2,950	2,950	4,000	3,000	4,500	3,500	(1000 MT)
Industrial Dom. Cons.	1,165	1,165	1,310	1,350	1,310	1,400	(1000 MT)
Food Use Dom. Cons.	4,110	4,110	4,785	4,785	4,795	4,915	(1000 MT)
Feed Waste Dom. Cons.	149	149	170	170	185	220	(1000 MT)
Total Dom. Cons.	5,424	5,424	6,265	6,305	6,290	6,535	(1000 MT)
Ending Stocks	242	242	442	642	462	617	(1000 MT)
Total Distribution	22,239	22,239	23,857	23,897	25,902	26,102	(1000 MT)
CY Imports	47	0	55	0	65	0	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
CY Exports	17,500	0	18,000	0	19,500	0	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		0		0		0	
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Meal, Soybean

Consumption

The Indonesian feed industry is the major consumer of soybean meal (SBM) in Indonesia. The Indonesian Feed Millers Association (GPMT) predicts that animal feed production will reach 10.3 MMT in MY 2010/2011. Soybean meal accounts for 20-25 percent of total feed ingredients, and the feed millers usually keep two months of SBM in inventory. The industry, therefore, needs to procure 2.945 MMT of SBM in the current marketing year. GPMT also indicates that domestic SBM consumption will increase to 3.1 MMT in the next marketing year as Indonesia is expected to produce 11.025 MMT of animal feed.

Trade & Ending Stock

Indonesia's SBM supply totally comes from imports, as the country has no soybean crushing facilities. Importers set their import planning based on an estimated animal feed production and inventory turnover of SBM managed by large feed millers. The importers commonly maintain SBM stock at around two handy-size bulk carrier of 35,000 – 50,000 tons. That information suggests that Indonesia is projected to import approximately 2.975 MMT in MY 2010/2011 and 3.1 MMT in MY 2011/2012.

PS&D Table, Soybean Meal

Meal, Soybean Indonesia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: May 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	0		0	0	0	0

Extr. Rate, 999.9999	0	0	0	0	0	0
Beginning Stocks	65	65	45	45	45	75
Production	0	0	0	0	0	0
MY Imports	2,507	2,507	2,875	2,975	3,000	3,100
MY Imp. from U.S.	225	225	175	175	175	175
MY Imp. from EU	1	1	1	1	0	0
Total Supply	2,572	2,572	2,920	3,020	3,045	3,175
MY Exports	0	0	0	0	0	0
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2,527	2,527	2,875	2,945	3,000	3,100
Total Dom. Cons.	2,527	2,527	2,875	2,945	3,000	3,100
Ending Stocks	45	45	45	75	45	75
Total Distribution	2,572	2,572	2,920	3,020	3,045	3,175
1000 MT, PERCENT						

Oilseed, Soybean

Production

Indonesia's soybean production dropped by 6.47 percent to 655,000 tons in MY 2010/2011 due to a 7.76 percent reduction in harvested areas. Low yields have become another factor that contributes to country's soybean production loss. The Indonesian Agency for Agricultural Research and Development (IAARD) has produced several high yield soybean varieties. The majority of farmers, however, still use non-certified soybean planting materials due to the following reasons

1. Low soybean prices provide economic disincentives for farmers to purchase certified seeds.
2. Availability of certified commercial soybean seed is inadequate due to the following factors
    a. Government (IAARD and other seed research stations at national and provincial level) concentrate their resources to produce breeder, foundation, and stock soybean seed instead of commercial ones.
    b. Most of certified commercial soybean seed are produced by small-scale seed producers which have limited production and distribution facilities.
    c. Private seed companies have no economic incentives to produce certified commercial soybean seed due to uneconomical selling price and soybean farmer's seed saving practices.

Figure I: Soybean field owned by farmers which beans will be used as seed. Farmers receive or buy source seed from Seed Research Station managed by central and local government.

Figure II: The farmers manually dry soybean seed (left), unsorted soybean seed (right)

Figure III: manual sorting process of soybeans for seed

Consumption

Indonesian soy consumption is unique as almost 99 percent of total domestic consumption goes directly into producing food for people. Home/cottage industries are major players in producing soy-based food products such as tempe, tofu, and soy-milk. Big-scale industries have so far focused on producing soy sauces like Heinz ABC, Wings Group, and Unilever. However, the largest share of domestic soybean consumption - 2.375 MMT in MY 2010/2011 - is by cottage industries.

Trade

Our previous update suggested that Indonesia will import 1.655 MMT of soybeans in MY 2010/2011. The recent development that indicates soybean production loss, however, provides room for higher import volume of soybean. As a result, Post forecasts Indonesia's soybean import figures at 1.705 MMT in MY 2010/2011. Indonesia already imported nearly 1.6 MMT of soybeans, of which 92 percent are

procured from United States, within Oct'10 – July'11 timeframe.

As domestic production is predicted to continue slowing down over the next marketing year, Post also forecasts that Indonesian soybean import figures will increase. More specifically, Post expects Indonesia to import 1.78 MMT of soybeans in MY 2011/2012.

Ending Stocks

Ending stocks of soybeans in MY 2010/2011 are predicted to be lower than that of previous marketing year, and it will increase to 75,000 MT in MY 2011/2012.

PSD Table, Soybean

Oilseed, Soybean Indonesia	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: May 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	540	540	550	495	550	490	(1000 HA)
Area Harvested	530	530	470	470	465	465	(1000 HA)
Beginning Stocks	100	100	70	70	50	55	(1000 MT)
Production	700	700	650	655	640	640	(1000 MT)
MY Imports	1,620	1,620	1,705	1,705	1,730	1,780	(1000 MT)
MY Imp. from U.S.	1,467	1,467	1,320	1,590	1,350	1,650	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	2,420	2,420	2,425	2,430	2,420	2,475	(1000 MT)
MY Exports	0	0	0	0	0	0	(1000 MT)
MY Exp. to EU	0	0	0	0	0	0	(1000 MT)
Crush	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Cons.	2,300	2,300	2,320	2,320	2,320	2,350	(1000 MT)
Feed Waste Dom. Cons.	50	50	55	55	50	50	(1000 MT)
Total Dom. Cons.	2,350	2,350	2,375	2,375	2,370	2,400	(1000 MT)
Ending Stocks	70	70	50	55	50	75	(1000 MT)
Total Distribution	2,420	2,420	2,425	2,430	2,420	2,475	(1000 MT)
CY Imports	1,630	1,741	1,635	1,750	1,650	1,800	(1000 MT)
CY Imp. from U.S.	1,450	1,582	1,320	1,610	1,350	1,650	(1000 MT)
CY Exports	0	0	0	0	0	0	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		0		0		0	
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Appendix 1

Benchmark Prices (US$/Ton)	Export Tax Rate (%)						
	Fresh Fruit Bunch & Palm Kernel	Palm Meal	Crude Products (2 items)	Pure Refined Products (11 items)	Mixed Refined Products (12 items)	Biodiesel (FAME)	Branded Packaged RBD Palm Olein
< = US$ 750	40	20	-	-	-	-	-
> US$ 750 - US$ 800	40	20	7.5	3.0	-	-	-
> US$ 800 - US$ 850	40	20	9.0	4.0	-	-	-
> US$ 850 - US$ 900	40	20	10.5	5.0	2	-	-
> US$ 900 - US$ 950	40	20	12.0	6.0	3	-	-
> US$ 950 - US$ 1000	40	20	13.5	7.0	4	2.0	2
> US$ 1000 - US$ 1050	40	20	15.0	8.0	5	2.0	2
> US$ 1050 - US$ 1100	40	20	16.5	9.0	6	2.0	2
> US$ 1100 - US$ 1150	40	20	18.0	10.5	7	2.0	3
> US$ 1150 - US$ 1200	40	20	19.5	12.0	8	5.0	4
> US$ 1200 - US$ 1250	40	20	21.0	13.5	9	5.0	5
> US$ 1250	40	20	22.5	15.0	10	7.5	6