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New Indonesian Palm Oil Export Levy

Report Categories:

Oilseeds and Products

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Report Highlights:

A levy on palm oil exports will be created as the result of Indonesian regulations 24/2015 and 61/2015. The levy will be used primarily to fund biodiesel subsidies. Industry contacts note that the levy is intended to help increase Indonesia’s domestic CPO consumption. Industry contacts also note that the levy is not a double tax. The portion of export levy equivalent to Indonesia’s current export tax will continue to be distributed to the Ministry of Finance, while the remainder will be distributed to the CPO fund agency created to manage the levy funds

General Information:

Indonesia passed regulations 24/2015 and 61/2015, establishing a plantation fund and consequently a levy on palm oil exports. Although the regulations cover multiple crops and multiple purposes, the most significant implications are for palm oil plantations and biodiesel subsidies. According to regulation 61, the fund will be used for the procurement and utilization of biodiesel in order to fill the gap between the market index price of conventional diesel and the market index price of biodiesel.

An exact amount has not yet been established for the levy, but estimates place the amount between $10 and $50/ton. Indonesia's Ministry of Finance is reported to be developing the regulations that will set the levy price, while the Ministry of Energy and Mineral Resources (MEMR) is developing the market index price for biodiesel. Despite not having fixed the levy price, Coordinating Minister for Economic Affairs, Sofyan Djalil, has announced that the levy will be implemented as of July 1. Bayu Krishnamurthi, former Vice Minister of Trade, has been appointed as director of the palm oil fund. Officials have estimated that the CPO fund agency could collect at least $700 million a year, and about 40 percent of the fund will be allocated to biodiesel subsidies. The remainder will be allocated to: (1) a fund supporting sustainable plantation businesses (2) enhance plantation human resource capacity (3) support the development of downstream industries (4) increase the use of plantation products for raw industry materials, renewable energy and exports (5) maintain plantation business revenues through price optimization and (6) support smallholder prosperity.

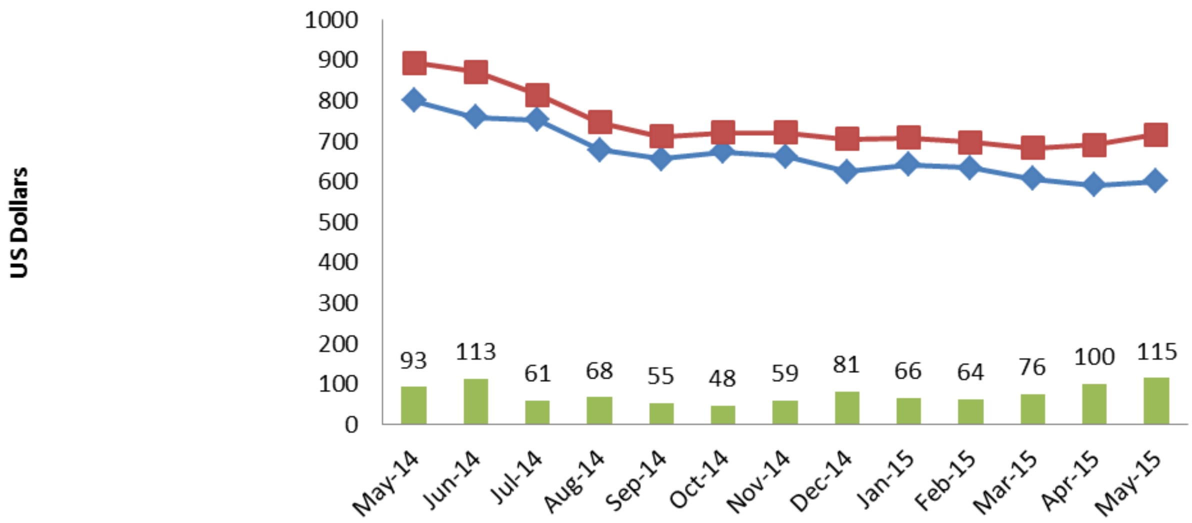
Local business contacts note that the levy is not a double tax. Under current regulations, an export tax, valued between 7.5 and 22 percent, is implemented whenever CPO prices rise above $750/ton. With the implementation of the new export levy, the portion of export levy equivalent to the export tax will continue to be distributed to the Ministry of Finance. The remainder will be distributed to the CPO Fund agency.

These new rules are not limited to palm oil. Regulation 24 also establishes the regulatory basis for plantation funds for coconut, rubber, coffee, cacao, sugarcane, and tobacco plantations. However, no implementing regulations have been established for these commodities, and palm oil is the only commodity currently being targeted to create a fund through an export levy.

Comment: The palm oil levy appears to have the general support of Indonesian palm oil businesses, which see it as a means to grow Indonesian CPO consumption. Local business contacts note that Indonesian palm oil stocks are growing, and that support for biodiesel consumption will help keep stocks at sustainable levels and support prices. Post analysis supports this perspective, noting that Indonesian palm oil production is expected to continue growing at a faster rate than Indonesia's current exports.

The overall influence of the levy on exports remains to be seen, as the value has not yet been set. Post notes, however, that importers may bear the cost of the levy as long as the CPO-soybean oil price spread remains greater than the levy. Producers note that if the levy is passed on to the farm gate price, the price hit may be offset in the short term by increased biofuels consumption. The CPO-soybean oil price spread varied between 48 and 115 dollars in the 12 month period proceeding June 2015. Palm oil prices have continued to fall, reaching an average of 601 dollars in May 2015, a 199 dollar/ton decline from May 2014. Declining prices are the result of ample soy and palm oil stocks. **End Comment.**

Figure 1. Palm Oil Price vs Soybean Oil Price (2014-2015)



	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
spread	93	113	61	68	55	48	59	81	66	64	76	100	115
Palm oil Price (US Dollars per Metric Ton)	800	758	753	678	657	673	662	625	642	634	608	592	601
Soybean Oil Price (US Dollars per Metric Ton)	894	872	814	746	712	721	721	706	708	698	683	692	716

Source: indexmundi.com