Monitoring Issue of Food, Energy and Sustainable Development Monthly Update: January 2021

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# Summary

- Indonesian Palm Oil production has increased, this is evidenced by the percentage increase in CPO (Crude Palm Oil) production from 32,500 (2015) to 47,180 (2019)...
- However, several things that cause oil palm farmers are still not prosperous in Indonesia, are due to low palm oil prices, issues of land legality, and funding constraints to verification of farmers in distributing funds.
- Thus, the need for Supervision and Pricing of Fresh Fruit Bunches (FFB) as well as assistance for ISPO certification costs as an effort to help the welfare of oil palm farmers.

# Increased Production, Lack of Prosperous Palm Oil Farmers?

# The Development of Palm Oil in Indonesia

Indonesia as the largest producer of palm oil produced 51.81 million tons of CPO and CPKO (Crude Palm Kernel Oil) with an area of 16.38 million ha in 2019. CPO is a derivative product of palm oil commodities, most of the CPO supply is used for the food industry such as industry. cooking oil and margarine. The high demand for CPO is supported by the use of CPO as raw material for food and non-food products. The added value

obtained from processing CPO is very high, ranging from 40% - 800%.

The commodity palm oil, CPO, and its derivative products are the main contributors to the national export performance with a value of USD22.97 billion in 2017 (excluding oleochemicals and biodiesel). This achievement enabled Indonesia to control 52 percent of the world's palm oil export market. In 2020, domestic CPO consumption reached 17.35 million tonnes, higher than consumption in 2019 which was 16.75 million tonnes.

## **Value Added CPO Derivative Products**

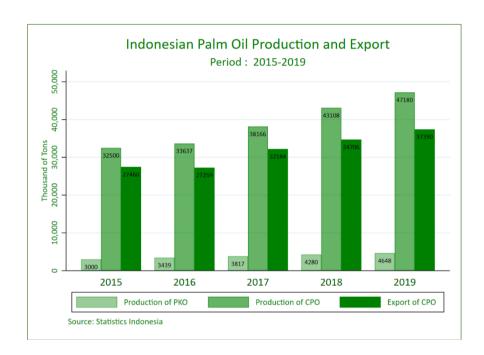
No	Products	Value Added (%)
1	Oil (Fried)	40-50
2	Fatty Acid	75-90
3	Stearic Acid	80-95
4	Margarine	175-190
5	Glyserin	180-200
6	Fatty Alcohol	280-300
7	Metil Ester/Biodiesel	480-500
8	Surfactan	785-800

The increase of the consumption is supported by the biodiesel sector, which was recorded at 7.2 million tonnes, up from 5.8 million tonnes in 2019. CPO in the biodiesel sector is the largest by volume, the oleochemical sector has the highest growth reaching 60 percent. In 2020, the uptake of CPO in oleochemicals was 197,000 tonnes, an increase from 2019 which was 89,000 tonnes. Consumption of CPO in the food sector has decreased by 14.5 percent (2020), to 723,000 tons from 2019 of 801,000 tons.

In 2018, the export value of palm oil was recorded at US \$ 17.8 billion or contributed around 3.5% of the national GDP. Indonesian CPO production decreased by 1.9 percent (May 2020) compared to the previous month, to 3,616,000 tons, while domestic consumption in May 2020 also decreased by 1.6 percent to 1,380,000 tons.

Indonesian Palm Oil Exports by Product Type (2019): Derivative products 69%; Oleochemical 8%; CPO 20% Biodiesel 3%. The total domestic consumption of palm oil in Indonesia in 2019 is around 14.62 million tonnes (in 1 year). Most of Indonesia's palm oil is consumed to meet food needs, namely 69.55% in 2014/2015. However,

with the implementation of the mandatory program for the use of biodiesel by the government, the composition of palm oil consumption for non-food / industrial use has increased, from 26.55% in 2014/2015 to 55.80% in 2018/2019.



#### **Palm Oil Farmers Still Not Prosperous?**

According to the Deputy Chairperson of the House of Representative Darmayanti Lubis (2018), several things that cause oil palm farmers are still not prosperous in Indonesia, are due to:

#### a. Low Palm Oil Prices

Low palm oil prices are caused by:

(i) There is no reference to the price of palm oil. So far, prices have followed the tendered market, and it is natural for the private sector to choose a low price. There must be a one-stop barometer of palm oil prices through the CPO price index. (ii) Lack of firm pricing because the price of Fresh Fruit Bunches (FFB) at the farmer level is based solely on the production costs of the Palm Oil Mill,

### b. Land Legality

Professor of the School of Environmental Sciences at the University of Indonesia (UI) Kosuke Mizuno said the issue of legality and land ownership status was the biggest obstacle for oil palm farmers to obtain a certificate of Indonesian Sustainable Palm Oil (ISPO). He explained through the CNN Indonesia media that the legality includes independent smallholder oil palm lands that are indicated to be in forest areas, do not have the legality of SHM (new SKT), or cannot have Cultivation Registration Certificate (STD-B).

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Chairman of the DPP Association of Indonesian Oil Palm Farmers (Apkasindo) Gulat Manurung added that although there is land belonging to farmers, as in forest areas about 56% of the total oil palm plantations. Meanwhile, to obtain an ISPO certificate, oil palm plantations must be outside the forest area.

#### c. Fund Constraints and Farmer Verification

The majority of farmers experienced financial constraints in replanting. This happens because the plantation land belongs to the people, most of the certificates have been pawned to third parties so that nothing else can be used as collateral to get capital for replanting.

On the other hand, the Oil Palm Plantation Fund Management Agency (BPDPKS) claims that there are no problems in the processing of oil palm plantations, but problems of verification and identification of farmers, as a result, the acceleration of funding allocations is often slow.

#### Recommendation

There are several recommendations to be considered:

- a. Supervision and Pricing of FFB. The Indonesian government has actually regulated the setting of palm oil prices through the Regulation of the Minister of Agriculture of the Republic of Indonesia Number 01 / PERMENTAN / KB.120 / 1/2018 concerning Guidelines for Determining Purchase Prices for Fresh Oil Palm Fruit Bunches for Plantation Production. However, there is a lack of oversight on implementation in the field. Thus, there is a need for supervision in setting FFB prices at the farmer level, given the weak bargaining position compared to palm oil processing mill owners.
- b. **ISPO Certification Fee Assistance.** The cost of obtaining an ISPO certificate is quite high. The

independent smallholders themselves actually receive financial assistance from BPDP-KS, but this funding only includes the oil palm replanting program. Thus, it is hoped that BPDP-KS can allocate special funds for ISPO certification for oil palm plantations owned by independent smallholders.

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