Indonesia’s Palm Oil Market - Outlook and Future Trends

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ABSTRACT

This paper looks at the domestic market for Indonesian palm oil in the light of Indonesia’s position as the biggest producer of palm oil in the world as well as being the most populous country in Southeast Asia with 260 million people. In Indonesia, domestic consumption of palm oil is rising steadily. This paper examines the current consumption of palm oil in Indonesia and addresses the key factors pertaining to domestic consumption. It is the culmination of a study using primary and secondary data, which is explanatory in nature and adopts a content analysis approach. The findings aim to help the palm oil industry in Indonesia to further penetrate her domestic market and to expand in the country. The study found that population expansion, economic improvement and government policy have triggered a rise in the domestic consumption of palm oil. The study also provides an inside marketing perspective of Indonesia’s consumer demographics.

Keywords: Indonesian domestic consumption, palm oil, key consumption drivers.

INTRODUCTION

The population of Indonesia is growing and – as noted by Oberman et al. (2012) – the country has the potential to become the seventh largest economy in the world by 2030. Current projections see the addition of 135 million new members to the Indonesian middle class, which currently is composed of about 45 million people (Indonesian Statistics Agency 2017). Young people make up 65% of the population. Parallel to this, the production of palm oil in Indonesia has increased significantly from 23 million tonnes in 2011 to 32 million tonnes in 2016 (Indonesian Statistics Agency 2017). Indonesia plans to produce 40 million tonnes of palm oil by 2020 (Dixon, 2016). Furthermore, the Indonesian government has imposed new regulations aimed at increasing the domestic consumption of biodiesel (Wirawan et al., 2008). This implies a new trend in the consumption of palm oil as a renewable fuel (Mekhilef et al., 2011). Moreover, a tax on
exports has been introduced which could impact export capacity (Hasan et al., 2001).

Oil palm plantations were first established in 1911 in Aceh and North Sumatra (Jagoe, 1952). More recently, the production of Indonesian palm oil has expanded rapidly due to new investments in the palm oil sector (Sheil et al., 2009). Indonesia accounts for 54% of the world’s crude palm oil (CPO) production. Sumatra is the main production centre for Indonesian palm oil, followed by Indonesian Borneo, or Kalimantan (Hambali and Rivai, 2010). Meanwhile, the consumption of palm oil as a cooking oil is increasing at around 4.8% yr\(^{-1}\) with an estimated consumption level of 9.66 litres per capita in 2016 (Indonesian Statistics Agency 2017).

**METHODOLOGY**

This study relied on qualitative analysis backed by content analysis to describe data, and then expounded on the Porter theory (Patton, 1990). It also used primary data by observing community markets to determine the response of consumers to the price of palm oil. Further, the study used secondary data from several publications from government institutions, palm oil associations, and the national statistics agency. Therefore, this study offers a deep analysis of consumer and consumption trends in the Indonesian market. Several big cities, such as Medan, Jakarta and Surabaya, were used for the observations.

**RESULTS AND DISCUSSION**

The findings explain trends in Indonesia’s palm oil production, which has been on the rise since 2002. Availability of land has prompted the development of new plantations in Indonesia (McCarthy, 2010). Figure 1.1 shows the trends in Indonesia’s palm oil production from 2002 until 2016.

Production of palm oil has increased dramatically due to domestic and foreign investments in the palm oil industry. As previously mentioned, it has been estimated that by 2020 total production will reach 40 million tonnes (Rifai et al., 2014).

Figure 1.2 shows palm oil production by province in Indonesia. From 2015 to 2016, Riau in Sumatra was the province with the greatest production of palm oil in the country. This was followed by North Sumatra and Central Kalimantan.

Along with being the biggest palm oil producer in the world, Indonesia has seen her domestic consumption increasing due to economic improvements. Statistics show that Indonesian households were already consuming 9.66 litres per capita in 2016. This suggests that the strong demand in the domestic market needs to be met by the producers. Figure 1.3 depicts the trends in domestic palm oil consumption in Indonesia.

Consumption of palm oil as cooking oil in Indonesia has been rising, specifically due to improvements in income per capita (Mekhilef et al., 2011). In fact, consumption of palm oil increased from 8.03 litres per capita in 2010 to 9.66 litres per capita in 2016. Furthermore, the government has stopped the sale of unpackaged cooking oil. The “Minyak Kita” programme was a government policy aimed at increasing domestic consumption of palm oil (Sutiah et al., 2008). Demand is expected to rise further to 10.5 kg of palm oil per capita, or the equivalent of 3.2 million tonnes of CPO yr\(^{-1}\) (Abdullah and Wahid, 2010).

Increasing consumption in Indonesia between 2011 and 2016 saw a corresponding rise in the production of palm oil from 7.8 million to 13.5 million tonnes over this period. In 2016, total production of cooking oil and margarine stood at 25 million tonnes, while oleochemical production, for products such as detergents and cosmetics, amounted to 3.4 million tonnes (Department of Trade, 2016). Indonesia’s minister of Energy and Mineral Resources (MEMR) published that 2016 biofuel production reached 3.656 million litres.

![Indonesian Palm Oil Production](source: Indonesian Statistics Agency (2017).)
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(Wright and Rahmanulloh, 2017). Indeed, Indonesia has increased her production capacity for biodiesel. Indonesia currently exports 27 million tonnes of palm oil overseas, and as previously mentioned, it was estimated that by 2020 Indonesia will be producing 40 million tonnes yr⁻¹ (Indonesian Palm Oil Association 2016). Income levels in Indonesia have risen from USD 2750.90 per capita in 2007 to USD 3974.10 per capita in 2016. This means people in Indonesia are enjoying greater purchasing power (Ananta et al., 2011). Income trends in Indonesia may be seen in Figure 1.4.

Figure 1.4 reflects a trend in positive progress in economic development in Indonesia. The income of Indonesians has risen significantly in the last 10 years (Minister of Finance of the Republic Indonesia, 2016), indicating continuous economic progress in the country.

A discussion on the consumption of palm oil in Indonesia is not complete without looking at the country’s population profile. Indonesia consists of 34 provinces, with Java being the most populous island in the country, while Papua Island has the sparsest population. Sumatra was known as a centre for spice production in the past, while Sulawesi is an island which borders the Philippines and has its south as its ecocomic centre.

Figure 1.5 shows that North Sumatra along with South Sumatra and Lampung are highly populated provinces in the island of Sumatra. In fact, North Sumatra – with Medan as its capital – is considered to be the economic centre of Sumatra. Meanwhile, more than half of Indonesia’s population live on the small island of Java. West Java is the most populous province in Java with 43.2 million inhabitants – twice the population of Australia. Java thus accounts for the highest amount of palm oil consumption in Indonesia. However, most of the country’s palm oil plantations are located in Sumatra and in Indonesian Borneo or Kalimantan.

Kalimantan is a more recent area for oil palm plantations, with new cities being established there since decentralisation was introduced in 2002. The population there is sparse and there are long distances from one city to another. South Sulawesi has Makasar as its capital which is the hub of the economy of Sulawesi with its population of more than 8 million people. Papua and West Papua have small populations within huge areas of land. Cities like Medan, Jakarta, Surabaya and Makassar have been growing rapidly as economic hubs. These cities form the main hubs for the consumption of cooking oil. Indonesia already imports cooking oil from neighbouring countries such as Malaysia, Australia, Papua New Guinea and Thailand. According to the Indonesian Statistics Agency (2017), in January and February of 2017, Indonesia imported 4728 tonnes of cooking oil at a value of USD 5.7 million. In addition, from January to June 2017, 16.4 thousand tonnes were imported at a monthly average of 2.7
thousand tonnes. It is necessary for the Indonesian government to ensure that domestic demand is met during Ramadhan, for the Eid celebration for Muslims, and for Christmas and the New Year, with demand reaching 20 million litres during these times. Annually, Indonesia consumes 9 million tonnes of palm oil yr\(^{-1}\), 6 million tonnes of which are for food and for industry, while the other 3 million tonnes are for biodiesel production (Indonesian Statistics Agency, 2017).

**CONCLUSION**

Domestic consumption of Indonesian CPO stood at 11.06 million tonnes in 2016, accounting for 30\% of Indonesia’s total production of CPO. During public holiday periods, such as Ramadhan and the New Year, domestic consumption usually increases by 10\%. Continuing expansion of Indonesia’s palm oil production and consumption is expected in the future. Increasing consumption of palm oil is being driven by the growing Indonesian population, an ever increasing income per capita, and the new regulation on biodiesel. Prices of fossil fuel have changed the policy of the government to encouraging higher use of biofuel. Also, new cities have been developed with an increased demand for palm oil, and new businesses have emerged that also require palm oil.

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*Source: Indonesian Statistics Agency (2017).*

*Figure 1.4. Trends in Indonesian income per capita (in USD), 2006-2016.*

*Figure 1.5 Indonesia's population by province.*
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