

Palm Oil Products Exports, Prices and Export Duties: Malaysia and Indonesia Compared

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ABSTRACT

Malaysia and Indonesia are the largest and second largest producers and exporters of palm oil products in the world where together they contribute 83.5% of production and 89.6% of palm oil trade in the world. Both countries export crude palm oil (CPO) and processed palm oil (PPO). The trend in exports indicates Malaysia exporting increasing quantities of CPO in the new millennium when exports of CPO increased from 0.4 million tonnes to 1.3 million tonnes in 2000 and 2001, respectively, while exports of Indonesian CPO increased from 1.8 to 2.0 million tonnes. PPO contributed to the larger share of palm products exports of both countries. Monthly FOB prices for Malaysian CPO and PPO in 2001 and 2002 were lower than those of Indonesia but prices for the latter were lower in the international market indicating price competition. Tariffs are imposed on exports of palm products by both countries with the objective initially of raising revenue. In the case of Malaysia, the objective later shifted to that of encouraging downstream processing while for Indonesia, it reflected a goal of keeping cooking oil prices to consumers down during periods of high oils and fats prices. An evaluation of taxes imposed on exports of both countries indicated that there is a difference in the way the export duty payable in the two countries computed. The different manners of computing led to high duty payable in the case of CPO exports by Malaysia when compared to that of Indonesia. There is no duty on exports of PPO from Malaysia while Indonesian duty is very low.

INTRODUCTION

Palm oil is one of the major oils and fats that is produced and traded in the world where Malaysia and Indonesia are the world's largest and second largest producers and exporters of the commodity respectively. Both these

countries contributed 83.5% of the production and 89.6% of the world trade in palm oil in 2002. Malaysia itself accounted for 47.9% of the production and 57.5% of the trade in palm oil in the world. Considering the increasing world supply of palm oil and that the countries needed to market the

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commodity, there appears to be intense competition in both countries in order to increase their market shares.

Palm oil production in Indonesia was 1.2 million tonnes in 1985 and this had increased to 4.4 million tonnes in 1995. With expansion in cultivation, the output of palm oil continued to increase to reach 8.8 million tonnes in 2002. By 2002, the area cultivated with oil palm in Indonesia was just about 170 000 ha behind that of Malaysia considering that the oil palm cultivated area in Malaysia was 3.7 million hectares. Exports of palm oil too had been increasing over the years from 1.2 million tonnes in 1990 to 1.8 million tonnes in 1995. By the year 2001, palm oil exports was 5.2 million tonnes and in 2002, the country exported approximately 6 million tonnes. The growth in exports in the decade was 14.7%.

The objectives of this article are to make comparisons pertaining to palm products exports, prices and export duties between Malaysia and Indonesia with emphasis on more recent policy measures. Data regarding the export duties of palm oil products of both countries were secured and a comparison in the manner of computing duties payable on exports of palm oil both CPO and PPO, between the two countries made. The amount of duties payable on exports of palm oil products of both countries were calculated and evaluated. It is hoped that the information generated can be utilized in determining whether there is a need to harmonize the export duties of palm products in both countries.

EXPORTS OF PALM OIL PRODUCTS

World exports of palm oil have been increasing over the years.

From 8.4 million tonnes traded in 1990, exports increased to 10.3 million tonnes in 1995. Exports in the year 2000 totalled 15.1 million tonnes and it further increased to reach 17.6 million tonnes in 2001. By 2002, world palm oil exports totalled 18.9 million tonnes. Thus exports had been increasing at an average annual growth rate of 7% per year during the past 12 years.

Malaysia and Indonesia are currently the world's largest and second largest exporters of palm oil respectively. Both countries export CPO and PPO and a comparison of the quantum, the countries and the products were exported to for 2000 and 2001 is illustrated in *Table 1*. The countries shown in *Table 1* indicate the situation of imports of palm oil from both exporting countries. For instance, India was the major importer of palm oil from Malaysia in 2001 with a total of 2.03 million tonnes while during the same period, the European Union (EU) was the largest importer from Indonesia with an import quantity of 1.2 million tonnes. Some of the countries included in *Table 1* are just to show a comparison of concentration of exports from one country compared to the market share of the other palm oil exporting country. Though Malaysia is the world's largest producer and exporter of palm oil, its exports of CPO in 2000 was only 4.6% of its total palm oil exports. However, exports of CPO from Malaysia increased from 398 400 t in 2000 to 1.276 million tonnes in 2001 giving an increase of 220.3%. The contribution of CPO in the exports of total palm oil by the country increased to 12%. Such an increase in exports of CPO by the country was attributed to the Malaysian Government permitting duty free exports of CPO by selected Malaysian companies.

In 2000, Indonesia exported a total of 1.82 million tonnes of CPO and this accounted for 43.9% of the total palm oil exported by that country. Exports of CPO in 2001 also increased though at a smaller rate where a total of 2.05 million tonnes were exported giving an increase of 229 300 t or 12.6%. Hence, when compared to the year 2000, the export share of CPO had declined.

As for PPO, there have been increases in exports by both countries. Exports from Malaysia increased from 8.68 million tonnes in 2000 to 9.35 million tonnes in 2001 and reached 9.72 million tonnes in 2002. Exports of PPO from Indonesia increased from 2.32 million tonnes in 2000 to reach 3.16 million tonnes in 2001.

Exports of palm oil by Malaysia and Indonesia are expected to increase in the future making greater amounts of palm oil available for world trade.

PRICES OF PALM PRODUCTS

There are more than 17 oils and fats produced and traded in the world. A wide range in prices for these oils and fats is not uncommon. The variations depend on market structures and on the peculiarities of different sectors of the economy. Even among the same type of oils that are produced, there appear to be some differences in prices.

Table 2 shows the price comparisons between palm oil of Malaysian and Indonesian origins. FOB prices for Malaysian CPO were obtained from registration of exports of CPO from Sabah while Indonesian CPO prices were FOB ex-Belawan. During the period January 2001 to December 2002, the Indonesian FOB prices for CPO ex-Belawan were higher in 23 months compared to that of Malaysian CPO FOB prices. FOB price for Malaysian CPO was

TABLE 1. TOTAL EXPORTS BY DESTINATION ('000 t)

Destination	Malaysia				Indonesia			
	2000		2001		2000		2001	
	CPO	PPO	CPO	PPO	CPO	PPO	CPO	PPO
EU	116.5	921.5	512.9	1 093.2	1 201.8	359.4	713.3	471.7
Japan	19.7	328.7	21.5	378.6	1.7	8.5	1.2	8.3
Pakistan	2.0	1 100.3	5.9	1 126.1	6.0	9.1	-	96.5
S. Korea	-	209.3	5.8	269.5	-	2.0	-	3.1
Singapore	9.0	326.6	-	405.8	-	-	-	-
China PR	-	1 022.0	14.8	1 266.9	167.6	525.8	256.5	436.7
Egypt	13.3	421.7	0.5	452.8	-	34.8	-	95.6
Nigeria	-	85.2	-	78.7	-	51.2	-	44.6
S. Africa	-	145.7	-	163.6	-	60.7	-	135.5
Tanzania	-	27.5	-	44.1	-	87.2	-	109.2
India	215.1	1 819.6	613.2	1 415.1	-	727.0	-	806.5
Bangladesh	-	96.9	-	174.7	-	59.8	-	172.8
Yemen AR	-	73.7	-	42.9	-	44.8	-	51.6
Saudi Arabia	17.9	139.8	2.2	173.6	-	2.3	-	0.6
UAE	3.7	185.4	2.5	177.6	-	8.1	-	8.1
Others	1.2	1 779.2	96.4	2 085.9	440.6	341.2	1 076.0	693.6
Total	398.4	8 682.7	1 275.7	9 349.1	1 817.7	2 321.9	2 047.0	3 161.0

Source: MPOB; Oil World.

higher than that of Indonesian CPO only in the month of September 2001 and this was by US\$ 20.28/t. The premium in price of Indonesian CPO against that of Malaysian CPO ranged from as low as US\$ 4.28 to as high as US\$ 57.34. On average, Indonesian CPO was priced at US\$ 21.52 higher than that of Malaysian CPO.

In the case of RBD palm olein, it can be seen that during the period January 2001 to December 2002, Indonesian FOB price was only lower than that of the Malaysian product once namely in February 2002. For the other 23 months, Indonesian RBD olein had been at premium where its price exceeded that of the Malaysian product from as low as US\$ 2.80 to as high as US\$ 64.58. Based on

discussions with traders of Malaysian palm oil, it was found that Indonesian palm products are usually sold at a discount to Malaysian palm products of about US\$ 7/t. This was attributed to Indonesia being relatively new in the marketing of palm oil and its desire to obtain markets as well as to increase its market share for its ever increasing palm oil production. Thus, even though prices are available from GAPKI (Indonesian Palm Oil Producers Association), the prices do not actually reflect the situation on the ground.

Yearly prices of palm products as shown in Table 3 took into account the discount in price of Indonesian palm oil over that of Malaysian oil mentioned earlier. It can be seen that price of refined

bleached deodorized (RBD) olein was high in 1997 and it further increased in 1998. In the case of Malaysian RBD olein, the price increased from US\$ 556 to US\$ 665.99/t in 1997 and 1998 respectively. The price then declined to US\$ 434 in 1999 and it further declined to reach US\$ 251.45 in 2001 before increasing to US\$ 381 in 2002 (Table 3).

If the price and total stocks of palm oil were to be evaluated, it can be observed that the price of palm oil is related to its own stock figures. During the period 1997 to 2002, it can be observed that prices were high and stocks were low in certain years. For instance when the price was at US\$ 556/t in 1997, ending stocks totalled 962 482 t. When price increased to

TABLE 2. PRICE DIFFERENCES BETWEEN MALAYSIAN AND INDONESIAN PALM PRODUCTS (US\$/t)

	Crude palm oil			RBD palm olein		
	Malaysia	Indonesia	*Differ. CPO	Malaysia	Indonesia	*Differ. olein
Jan 01	190.00	199.68	9.68	213.85	237.01	23.16
Feb	177.00	187.59	10.59	204.48	222.04	17.56
Mar	199.50	214.60	15.10	245.25	248.05	2.80
Apr	211.50	222.15	10.65	236.10	256.66	20.56
May	192.50	210.91	18.41	227.42	244.37	16.95
Jun	194.50	224.07	29.57	249.96	255.88	5.92
Jul	260.00	317.34	57.34	343.05	369.61	26.56
Aug	304.50	337.70	33.20	337.05	401.63	64.58
Sep	292.00	271.72	20.28	277.00	313.93	36.93
Oct	221.00	230.00	9.00	248.76	261.91	13.15
Nov	274.00	279.86	5.86	307.10	316.51	9.41
Dec	281.00	293.34	12.34	319.30	332.04	12.74
Jan 02	291.00	318.35	27.35	333.75	342.02	8.27
Feb	280.50	322.65	42.15	329.00	300.66	(28.34)
Mac	291.50	317.25	25.75	329.00	361.85	32.85
Apr	303.50	330.79	27.29	335.88	361.73	25.85
May	322.00	357.94	35.94	353.88	383.41	29.53
Jun	372.00	403.82	31.82	389.65	436.85	47.20
Jul	365.50	393.14	27.64	396.77	422.02	25.25
Aug	384.50	410.01	25.51	413.60	440.61	27.01
Sep	368.00	391.93	23.93	389.37	428.99	39.62
Oct	366.00	389.48	23.48	401.56	419.82	18.26
Nov	402.00	406.28	4.28	437.40	463.40	26.00
Dec	426.00	455.91	29.91	462.00	487.40	25.40

Note: *FOB Medan (Rp/kg) - seller price.

Sources: MPOB; Gabungan Pengusaha Kelapa Sawit Indonesia (GAPKI - Indonesia Palm Oil Producers Association).

TABLE 3. PRICE OF REFINED BLEACHED DEODORIZED (RBD) OLEIN AND TOTAL STOCKS OF PALM OIL, MALAYSIA

Year	Price RBD olein (US\$)		Total stock (CPO+PPO)	
	Malaysian	Indonesian	Malaysian	Indonesian
1997	556.00	549.00	962 482	510 000
1998	665.99	658.99	825 604	820 000
1999	434.00	427.00	1 177 209	855 000
2000	287.00	280.00	1 416 706	840 000
2001	251.45	244.45	1 213 571	1 050 000
2002	381.00	374.00	1 136 444	930 000

Source: MPOB.

US\$ 665.99/t in 1998, ending stocks declined to reach 825 604 t. From 1999 to 2001, there was a continuous decline in price, but stocks indicated an upward trend. Finally, when price increased to

US\$ 381 in 2002, stocks declined from 1 213 571 t in 2001 to 1 136 444 t in 2002. The Pearson correlation between price of refined bleached deodorized palm (RBDP) olein and levels of stocks

during the period was 0.988 ($p = 0.0001$) (Table 4). This indicates that when stocks of palm oil are high, its own price would decline due to the increase in the availability of palm oil for trade in the following year.

The Pearson correlation between price of RBDP olein and levels of stocks during the same period for Indonesian palm oil was -0.671 ($p = 0.096$). Thus, Indonesian RBD palm olein is also negatively correlated to its total stocks.

EXPORT DUTY DEVELOPMENTS

More than 17 types of oilseeds, oils and fats are traded in the world's

TABLE 4. PEARSON CORRELATION BETWEEN REFINED BLEACHED DEODORIZED (RBD) PRICE AND TOTAL STOCK FOR MALAYSIA AND INDONESIA

Country	Pearson correlation	P-value
Malaysia	-0.988	0.0001
Indonesia	-0.671	0.096

oils and fats sector. Some of these products are exported free of duty while some countries impose duties on exports. Similarly, some importing countries imposed tariffs on the imports of these products. In the case of vegetable oils, small duties are imposed on imports of crude vegetable oils while oils that have undergone higher levels of processing face a much higher level of tariff. Some exporting countries impose higher tariffs on exports of crude vegetable oils and lower tariffs on exports of processed oils. Countries producing the same type of oil too compete with one another for markets. Competition can be in the form of tariffs and prices.

The reasons for the imposition of tariffs or duties on exports of goods by a country can be due to the government wanting to collect revenue and/or protection of the local industry. On the other hand, importing countries impose tariffs on imports to bring gains to domestic producers who face import competition, by taxing only the foreign product. The more it costs consumers to buy the foreign products, the more they will turn to domestic suppliers, who get the benefits of extra sales and higher prices thanks to the tariff.

Export Duty of Malaysian Palm Oil Products

Duty on exports of CPO from Malaysia was imposed with the objectives of contributing to government revenue, encouraging value-added/downstream

processing of Malaysian palm oil and to enhance the marketability/market access of Malaysian palm oil to the world.

As far as CPO is concerned, the duty on exports has been in existence since 1960 where the rate applied was 5% *advalorem* and the objective was to raise revenue (Sally and Nasir, 1983). From 1965 to 1972, the duty rate was raised to 7.5%. A graduated scale of export duty replaced the flat rate basis of export duty, in January 1972. Under the graduated scale of export duty an *advalorem* duty of 7.5% was imposed on a gazetted value not exceeding RM 350/t. A system of gazetted prices was also introduced then to improve transactions regarding the duty to be paid for exports. The increase in production cost due to inflation was incorporated in the computation of export duty in 1974. This change led to the increase in the threshold price for which no duty was collected to RM 650/t. Since then, there has been no upward revision of the threshold price although the cost of production has increased. No tax is imposed on the first RM 650/t and a tax of 10% is applied for the first RM 50 exceeding the threshold price after which the amount of tax payable is as illustrated in Table 5. For prices exceeding RM 850/t, the duty payable would be 30% of the value in excess of RM 850.

The manner of arriving at the gazetted price was also changed. It was based on the average of the FOB price from the 16th of the previous month to the 15th of the

TABLE 5. DUTY RATES ON EXPORTS OF CRUDE PALM OIL FROM MALAYSIA (2003)

Price/t	Duty (%)
First RM 650	Nil
Next additional RM 50	10
Next additional RM 50	15
Next additional RM 50	20
Next additional RM 50	25
Plus on the balance	30

next month and came into operation on the first working day of the following month. For example, the gazetted price for April was the average of the FOB price for 16 February to 15 March and the price for May was calculated on the period 16 March to 15 April. Presently, it is based on a weekly basis. The weighted average CPO FOB price for the period Friday till Thursday of the previous week would be the gazetted price applicable in the following week.

A significant change in the Malaysian palm oil industry took place in 1976 when the export duty on PPO was introduced. Different rates of duty were imposed on CPO and PPO. The gazetted price for PPO was worked out on the average of the previous one month's prices in the same way as the gazetted price for CPO is calculated. It is based on an average price of all types of processed oil - *i.e.* not only neutralized or bleached but every type of fractioned oil and olein as well. The formula in Table 5 was then applied to determine the nominal duty for PPO. Lower duties were charged on processed palm oil in order to encourage the processing of CPO within Malaysia. Before that, exports were duty free under investment schemes to encourage investment in the industrial sector.

Duties on PPO had been amended over time and this had been reviewed by Sally and Nasir

(1983). The export duty charged on PPO was also based on a gazetted price but the exemptions given differed according to the degree of processing that the oil had undergone. Greater exemptions were given for oils that had undergone higher levels of processing. The gazetted price for PPO was based on the weighted average price for all types of PPO, *i.e.* not only neutralized or bleached but every type of fractionated oil and olein as well. The duration of the periods for arriving at the applicable gazetted price was the same as that used in the computation of the gazetted price of CPO.

Though there had been many changes in the computation of duty payable on PPO, the formulae utilized for more than two decades are as shown in *Table 6*. Once the duties on PPO have been determined, the exemption given is based on the formula. For instance, if the duty on category III is RM 210, the exemption given would be $0.5 (210-200) + 163.25 + 0.35 (210-Dc)$ which amounted to RM 182.60. This is based on the PPO price of RM 1433/t while the price of CPO is lower than that of PPO by RM 136/t. Thus, the actual duty payable amounted to RM 27.40/t. This manner of computation of duty payable on

exports of PPO came into effect since October 1981. Effective 30 September 2000 until 31 August 2001, exports of PPO were exempted from duty after which the export duties were abolished.

Export Duty of Indonesian Palm Oil Products

Indonesia also imposes duties on the exports of palm oil and the rates have varied over time. Heavy duties are imposed on exports of palm oil when prices in the world market are high. This is to ensure that there is ample supply of cooking oil in the domestic market. Such a situation occurred in 1979

TABLE 6. DUTY EXEMPTION FOR PROCESSED PALM OIL (w.e.f. 23/10/81)

Export duty	Exemption
Category I (N/RPO, BPO, CPL)	
RM 95 and less	100%
RM 95 - RM 200	$0.5 (Dp - 95) + 95.00 + 0.35 (Dp - Dc)$
RM 200 - RM 365	$0.35 (Dp - 200) + 147.5 + 0.35 (Dp - Dc)$
RM 365 and above	$0.2 (Dp - 365) + 205.25 + 0.35 (Dp - Dc)$
Category II (N/RBPO, N/RPL, BPL)	
RM 95 and less	100%
RM 95 - RM 200	$0.6 (Dp - 95) + 95.00 + 0.35 (Dp - Dc)$
RM 200 - RM 365	$0.45 (Dp - 200) + 158.0 + 0.35 (Dp - Dc)$
RM 365 and above	$0.3 (Dp - 365) + 323.25 + 0.35 (Dp - Dc)$
Category III (N/RBDPO: 6 Red, N/RBPL)	
RM 95 and less	100%
RM 95 - RM 200	$0.65 (Dp - 95) + 95.00 + 0.35 (Dp - Dc)$
RM 200 - RM 365	$0.5 (Dp - 200) + 163.25 + 0.35 (Dp - Dc)$
RM 365 and above	$0.35 (Dp - 365) + 245.75 + 0.35 (Dp - Dc)$
Category IIIA (N/RBDPO: 3 Red)	
RM 95 and less	100%
RM 95 - RM 200	$0.7 (Dp - 95) + 95.00 + 0.35 (Dp - Dc)$
RM 200 - RM 365	$0.55 (Dp - 200) + 168.5 + 0.35 (Dp - Dc)$
RM 365 and above	$0.4 (Dp - 365) + 259.25 + 0.35 (Dp - Dc)$
Category V (N/RBDPL)	Full exemption

Notes: N/RPO = neutralized /refined palm oil, BPO = bleached palm oil, CPL = crude palm olein, N/RBPO = neutralized/refined bleached palm oil, N/RPL = neutralized refined palm olein, BPL = bleached palm olein, N/RBDPO = neutralized refined bleached deodorized palm oil, N/RBPL = neutralized refined bleached palm olein, N/RBDPL = neutralized/refined bleached deodorized palm olein, Dp = duty on PPO and Dc = duty on CPO.

when exports were curbed through the imposition of high export tax or by banning exports. Similarly, in 1984, the government imposed a high export tax of 37.18% on CPO due to high prices in the world market while in June 1986, the export tax on CPO was reduced to zero when the price in the world market was low.

In 1991, the trade in palm oil and copra was deregulated by the government. Traders were free to

import CPO and copra at an import duty of 5% while cooking oil (from palm oil and coconut) was subject to a duty of 10%.

In September 1994, the export duties on CPO and PPO were imposed again with export taxes ranging from 40% to 75%. The reason for the reimposition of duty was because prices had begun a gradual increase to reach a high level in August. This prompted the Indonesian Government to raise

the duty on exports so that there would be enough cooking oil for consumption in the country. The local delivered price for CPO in January 1994 was RM 991 t and by August, it had increased to RM 1409 while that of RBD palm oil had increased from RM 1083 to reach RM 1528 /t during this period. In November 1996, the export benchmark prices on CPO, RBD palm oil, crude olein and RBDP olein were reduced by 2.6,

TABLE 7. EXPORT DUTY STRUCTURE OF INDONESIAN PALM OIL

No.	Price levels (US\$/t)	Duty/t
I.	Crude palm oil (CPO)	
	1. Base price US\$ 435	0%
	2. Additional:	
	a) First 35 (or 435 to 470)	60%
	b) Next 35 (or 470 to 505)	56% X (HE-HD)
	c) Next 35 (or 505 to 540)	52% X (HE-HD)
	d) Next 35 (or 540 to 575)	48% X (HE-HD)
e) Next 35 (or 575 to 610)	44% X (HE-HD)	
f) Balance (P>610)	40% X (HE-HD)	
II.	Refined bleached deodorized palm oil (RBD PO)	
	1. Base price US\$ 460	0%
	2. Additional:	
	a) First 40 (or 460 to 500)	60% X (HE-HD)
	b) Next 40 (or 500 to 540)	56% X (HE-HD)
	c) Next 40 (or 540 to 580)	52% X (HE-HD)
	d) Next 40 (or 580 to 620)	48% X (HE-HD)
e) Next 40 (or 620 to 660)	44% X (HE-HD)	
Balance (P>660)	40% X (HE-HD)	
III.	Crude olein (CRD olein)	
	1. Base price US\$ 465	0%
	2. Additional:	
	a) First 45 (or 465 to 510)	75% X (HE-HD)
	b) Next 45 (or 510 to 555)	70% X (HE-HD)
	c) Next 45 (or 555 to 600)	65% X (HE-HD)
	d) Next 45 (or 600 to 645)	60% X (HE-HD)
e) Next 45 (or 645 to 690)	55% X (HE-HD)	
Balance (P> 690)	50% X (HE-HD)	
IV.	Refined bleached deodorized olein (RBD olein)	
	1. Base price US\$ 500	0%
	2. Additional:	
	a) First 50 (or 500 to 550)	75% X (HE-HD)
	b) Next 50 (or 550 to 600)	70% X (HE-HD)
	c) Next 50 (or 600 to 650)	65% X (HE-HD)
	d) Next 50 (or 650 to 700)	60% X (HE-HD)
e) Next 50 (or 700 to 750)	55% X (HE-HD)	
f) Balance (P> 750)	50% X (HE-HD)	

Notes: HE = export price; HD = base price.

2.7, 2.9 and 2.7 percentage points (Marks *et al.*, 1998). In July the following year, export taxes were raised again to encourage the development of downstream industries by increasing value-added to the palm oil industry.

Trade deregulation continued further and, by 1997, the objective had become to enhance the competitive power of Indonesia in facing economic globalization. This was based on commitments under the WTO, AFTA and APEC agreements up to the year 2003 to facilitate exports. Exports of consignment foods that did not require export notification documents was raised for goods not exceeding a value of Rp. 10 million previously to a value not exceeding Rp. 100 million. Companies that met the conditions for exports were given fast treatment regarding customs, taxes and financing. In 1997, the threshold price where no duty was imposed on exports of CPO was US\$ 435. If the threshold price was greater than US\$ 435 but below US\$ 470 /t, the duty imposed on exports was 60% of the difference between the export price (HE) and the threshold price (HD). For every additional increment of US\$ 35, a declining duty rate of 4% of the difference between the export price and threshold price was imposed. This duty structure was applied to a level when the FOB price reached US\$ 610 /t after which the duty imposed remained at 40% of the difference between HE and HD (Table 7).

Exports of PPO too faced similar duty changes, where the differences were with changes in threshold prices, rates charged between the differences in the export price and the threshold price, as well as the rates of increments above the threshold prices. The base price for RBD palm oil was US\$ 460 and crude olein was higher at US\$ 465 while

**TABLE 8. NEW EXPORT TAXES FOR PALM OIL AND PRODUCTS:
DECREE OF THE MINISTER OF FINANCE
NUMBER 387/KMK.017/2000
(decision of the export taxes on oil palm, palm oil and
their products)**

Description	Export tax %	
	Old*	Recent**
Oil palm and palm kernel	10	5
Crude palm oil (CPO)	10	5
Refined bleached deodorized palm oil (RBDPO)	6	2
Crude olein (CRD olein)	8	2
Refined bleached deodorized palm olein (RBDP olein)	6	2
RBD olein - in branded package	0	0
Crude palm stearin	0	0
Refined bleached deodorized palm stearin (RBDP stearin)	0	0
Crude palm kernel oil (CPKO)	0	0
Refined bleached deodorized palm kernel oil (RBD PKO)	0	0
Crude coconut oil (CCO)	0	0
Refined bleached deodorize coconut oil (RBD CCO)	0	0

Notes: Old* = prior to September 2000; Recent** = after September 2000.

Sources: Sisson (2002); Global Agriculture Information Network (Gain Report), September 2000.

that for RBD olein was higher and pegged at US\$ 500 /t. Similarly, the amounts of duties payable were based on the formulae in Table 7.

A ban on exports of palm oil took place in late 1997, after which it was lifted in the first half of 1998 and high export duties were put in place. Changes in the export duty rate continued over the years and by September 2000, new export taxes and new export base prices on oil palm, palm oil and derivative products were announced.

From Tables 8 and 9, it can be seen that there had been an increase in the export check prices or export base prices but a lowering in the export tax. This move resulted in a decline in duty payable on exports of palm products. For instance, the export duty on CPO declined from US\$ 12 to US\$ 9.5 /t. Similarly, the duty on crude palm olein declined from US\$ 12 to US\$ 3.84/t. The

rationale was to make Indonesian palm oil more competitive vis-à-vis Malaysian palm oil.

The present export duty structure for Indonesian palm products is illustrated in Table 10. It can be seen that the country allows the export of fresh fruit bunches as well as palm nuts at a duty of 3%. This is to take into account the unavailability of milling and kernel crushing facilities especially in the Kalimantan area. Exports of CPO and crude palm olein are taxed 3%, while the tax imposed on PPO is 1%. The export price is fixed on a monthly basis but has remained unchanged so far.

In examining the manner of calculating the duty payable on exports of CPO by Indonesia, it can be deduced that the cost of production can probably be incorporated into the system. This is because an examination of

TABLE 9. LETTER OF THE DIRECTOR GENERAL OF FOREIGN NUMBER 182/DJPLN/IX 2000 (export check prices of oil palm, palm oil and derivative products)

Description	Check prices (US\$/t)	
	Old*	Recent**
Oil palm and palm nuts	25	40
Crude palm oil (CPO)	120	190
Refined bleached deodorized palm oil (RBD PO)	140	200
Crude palm olein (CRD olein)	150	195
Refined bleached deodorized palm olein (RBD olein)	165	215

Notes: Old* = Prior to September 2000; Recent**= after September 2002.

Sources: Sisson (2002); Global Agriculture Information Network (Gain Report), September 2000.

Figure 1 that illustrates Malaysian and Indonesian CPO export duty for 2001 and 2002 showed that the export base price on which duty is based for Indonesian exports of CPO set at RM 608 equivalent is close to the threshold price of the Malaysian duty formula on exports of CPO. The only difference is that the amount of tax payable on exports of CPO by Malaysia is based on price in excess of the threshold price while Indonesia computes the duty payable based on the export price (*harga patukan export*).

The basis used by Indonesia in computing the duty results in the duty payable to be very minimal.

If based on the average gazetted price of Malaysian CPO, the base price set by Indonesia is very low. In December 2002, the duty payable for exports of CPO from Malaysia was 16% of the average gazetted price while the amount of duty payable for export of CPO by Indonesia was only 1.16% of the average gazetted price of Malaysian CPO (Table 11).

CONCLUSION

World supplies of palm oil products especially from Malaysia and Indonesia, the two largest producers and exporters, are expected to continue to increase and the products would be

competing for market share in the world's oils and fats market. Both countries started with exporting CPO and then graduated to exports of PPO, the value-added products. Exports of PPO by Malaysia accounted for the major portion of its trade since its export share in 2000 was 95.6% while in 2001 it was 88%. In the case of Indonesia, exports of CPO in 2000 were 44% while in 2001 its export share was 39.3%.

The review of developments between Malaysian and Indonesian palm oil products indicated that there are differences in the way the export duty payable on CPO of the two countries is computed. In the case of Malaysia, the current duty payable on exports of CPO is based on a system of gazetted price released on a weekly basis indicating that the amount of duty payable changes over time depending on market price. On the other hand, the current duty payable on exports of CPO by Indonesia is based on *Harga Patukan Eksport* or base export price that is fixed at US\$ 165 /t, on which a export duty of 3% is imposed. Thus, the amount of duty to be paid on CPO exports by Indonesia is fixed while exporters of palm oil from Malaysia do not know in advance the amount of duty to be paid on exports.

Another area of difference is the approach utilized to determine the amount of duty payable on exports. The cost-plus approach is a system where no tax is payable on exports if the price (gazetted) is lower or equal to the threshold price. This approach is utilized by Malaysia and is similar to the system in computing tax payable on income in the country. This is an advantage to Malaysian exporters because export duty would only be paid if prices were greater than the threshold price which would mean that at low prices producers would not be burdened with export tax.

TABLE 10. PRESENT EXPORT DUTY STRUCTURE ON INDONESIAN PALM PRODUCTS

No.	Type	HS	Export price Pegged US\$/t	Export tax
1	FFB and palm nuts	1207.10.000	35	3%
2	Crude palm oil	1511.10.000	165	3%
3	Refined bleached deodorized palm oil	1511.90.000	175	1%
4	Crude palm olein	1511.90.000	165	3%
5	Refined bleached deodorized palm olein	1511.90.000	190	1%

Note: HS = harmonized system

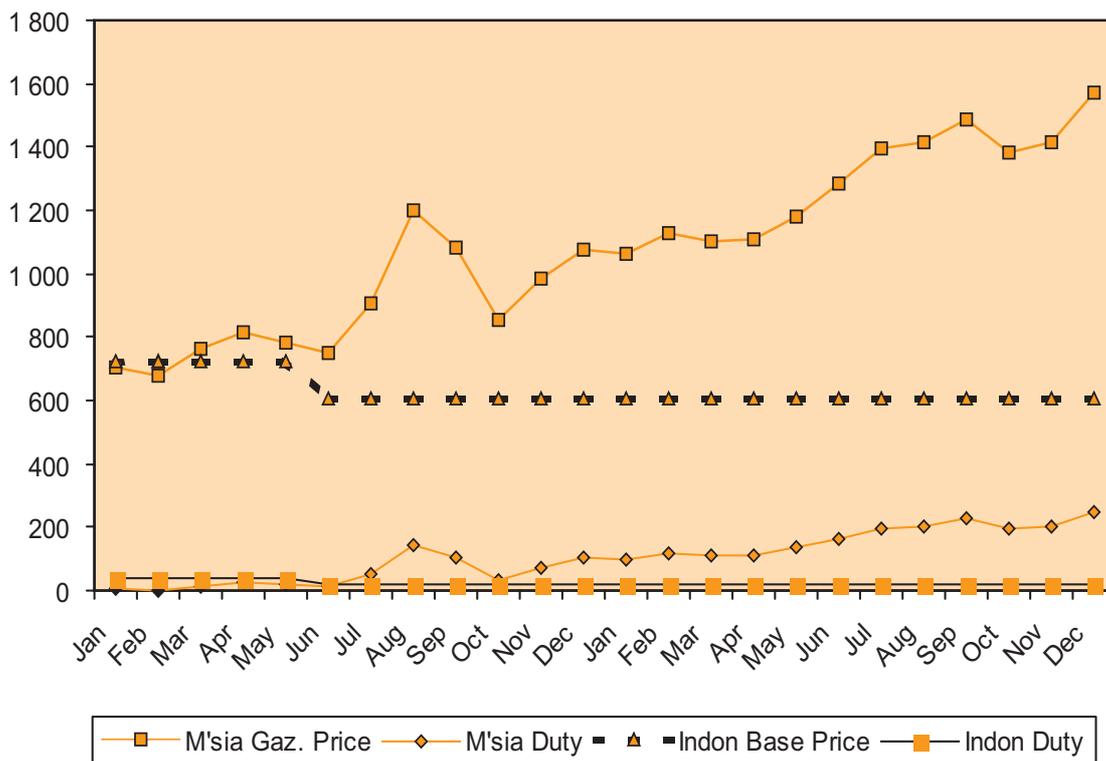


Figure 1. Malaysian and Indonesia crude palm oil (CPO) exports duty 2001-2002 (RM).

TABLE 11. MALAYSIAN AND INDONESIAN CRUDE PALM OIL (CPO) EXPORT DUTY 2001 AND 2002 (RM)

Months	Malaysia			Indonesia		
	Ave. gazetted price	Duty	Duty as % of gazetted price	Base price	Duty	Duty as % of gazetted price
Jan '01	702.88	5.43	0.72	722	36.10	5.14
Feb	675.85	2.59	0.38	722	36.10	5.34
Mar	765.20	15.54	2.03	722	36.10	4.72
Apr	817.48	26.87	3.29	722	36.10	4.42
May	784.70	19.44	2.48	722	36.10	4.60
Jun	747.18	12.08	1.62	608	18.24	2.44
Jul	904.40	51.32	5.67	608	18.24	2.02
Aug	1 201.56	140.67	11.71	608	18.24	1.52
Sep	1 079.68	103.90	9.62	608	18.24	1.69
Oct	851.96	35.59	4.18	608	18.24	2.14
Nov	982.20	74.66	7.60	608	18.24	1.86
Dec	1 074.45	103.33	9.62	608	18.24	1.70
Jan '02	1 061.63	98.48	9.28	608	18.24	1.72
Feb	1 126.04	117.82	10.46	608	18.24	1.62
Mar	1 101.53	110.46	10.03	608	18.24	1.66
Apr	1 107.25	112.88	10.19	608	18.24	1.65
May	1 179.90	133.99	11.35	608	18.24	1.55
Jun	1 281.74	164.52	12.84	608	18.24	1.42
Jul	1 393.10	197.95	14.21	608	18.24	1.31
Aug	1 413.98	204.19	14.44	608	18.24	1.29
Sep	1 484.85	225.46	15.18	608	18.24	1.23
Oct	1 384.13	195.25	14.11	608	18.24	1.32
Nov	1 413.60	204.08	14.44	608	18.24	1.29
Dec	1 569.40	250.82	15.98	608	18.24	1.16

Indonesia on the other hand, does not use the cost plus approach. For instance, an export duty of 3% is imposed on US\$ 165 or RM 608/t equivalent. No additional duty needs to be paid for any additional value above the price at which the duty is fixed.

PPO products are obtained from the further processing of CPO. There are value additions in the production of PPO and exporting them. Considering that a large proportion of Malaysian PPO is for the export market, there is a big demand for the products. Countries that do not have adequate refining capacities

normally import these products.

Exports of PPO products by Malaysia are duty free while exports of Indonesia face a duty of 1%. For Indonesia, the export base price for RBD palm oil is US\$ 175/t while for RBD palm olein it is US\$ 190/t. Thus, the duty payable on exports of PPO by Indonesia is also very minimal which is US\$ 1.75/t of RBD palm oil and US\$ 1.90 /t of RBD olein.-

Malaysia has allowed duty free exports of CPO by certain selected companies and there is no duty on exports of PPO. In the case of Indonesia, the duty payable on exports of palm oil products is very

minimal. This difference does not warrant any changes in the duty calculations to harmonize trade. Probably if there is a need to harmonize trade in palm oil products of the two countries, other areas such as market access and market promotion should be looked into. This is to ensure that palm oil products can compete with soft oils in the growing world market for oils and fats. The competition for market share should be seen in the long-term as palm oil versus soft oils instead of Malaysian palm oil versus Indonesian palm oil.

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