Palm O' Journal

paspi
Palm oil Agribusiness Strategic Policy Institute

Analysis of Palm Oil Strategic Issues Vol. I, No. 37/12/2020

THE IMPACT OF CHANGES IN EXPORT LEVY TARIFF (PMK 191/2020) ON PALM OIL INDUSTRY PLAYERS

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RESUME

Referring to Law No. 39/2014 concerning Plantations, Article 93 revealed that one of the funding sources for plantation development from levy from the actors. This law has been followed up by the issuance of Government Regulations, Presidential Regulations and Minister of Finance Regulations related to the collection and use of palm oil levy as a source of funding for the development of the national palm oil industry related to the replanting of smallholder plantations, development of plantation infrastructure, human resource (farmers) development, research inovation, promotion (positive campaign) and development palm oil-based biofuels.

The development of the palm oil export levy tariff has change since 2015. In fact, the levy tariffs were abolished due to the decline in CPO prices in 2019. However, in line with the positive trend of CPO prices in 2020, the Indonesian government has re-applied tariffs. export levy through PMK 57/2020 by imposed levy tariff of USD 55 per ton for every levels of CPO price.

In line with trend of increasing CPO prices and the sustainability of programs in development national palm oil industry, such as biodiesel mandatory (B30) and replanting (PSR), these programs require sustainable supporting funding that comes from export levy. Therefore, Indonesian Goverment made an adjustment of the palm oil's product export levy rates set out in PMK 191/2020. In this regulation, the amount of the CPO's levy tariff is progressive at a certain price threshold by following the reference price set by the Ministry of Trade. The export levy rates range from USD 55 per ton - UD 995 per ton, or an increase of USD 5 per tonne every increase in the reference price of CPO by 25 per ton.

The impact of the export levy policy (indirect levy) will also be passed through to all industry players, both upstream and downstream along the palm oil supply chain. The results analysis shows that the implementation of CPO's export levy (PMK 191/2020) is causing losses for FFB and CPO producers. On the other hand, the integrator of oil palm plantation company - CPO/RPO (CPO mill) - the downstream industry and downstream industry players actually enjoy the benefits (gain). However, in total it can be ascertained that the losses suffered by the FFB and CPO producers is greater than the profits enjoyed by the integrator industry and the downstream industry.

The players who lost due to the implementation of the new export levy tariff, namely CPO and FFB producers, especially smallholder farmers must be compensated. The compensation is the optimilization of allocation of palm oil funds came from export levy for development of smallholder farmers through programs such as replanting, human resource development, research innovation, promotion (positive campaigns), provision of plantation infrastructure and development of the institutional oil palm farmers in the area equipped with IVO (Industrial Vegetable Oil) mill.

INTRODUCTION

Palm oil and its derivatives are one of Indonesian commodities/products subject to export tariffs/taxes. Palm oil, especially Crude Palm Oil (CPO), which is classified as an upstream product group (raw materials) is subject to a higher export tax. This is because CPO is a commodity that is widely exported due to large world market demand, even though it's domestic demand as raw material also increasing and has potential to creater higher value added. So, the purpose of export taxes on palm oil (especially CPO) is to maintaining availability in domestic market and to encourage development of downstream industry.

The export tax imposed on palm oil products consists of two, namely Export Duty and Export Levy. Although both of them are export tax instruments but they have difference. The export duty become state revenue, while the export levy used to funding the development of national palm oil industry, in accordance with mandate of Law 39/2014 concerning of Plantation and development of palm oil-based biofuel.

At the end of 2020, Indonesian government issued a new policy related to changes of export levy tariffs for palm oil and its derivative products as stipulated in Minister of Finance Regulation No. 57/PMK.05/2020 (PMK 191/2020) concerning Service Rates of the Public Service Agency and the Palm Oil Fund Management Agency. In this regulation, the amount of export levy is a progressive rate based on the threshold price or reference CPO price was set by Ministry of Trade. Not only CPO, export of palm oil derivatives products are also subject to levy, but the rates are lower than CPO's levy.

This paper aims to discuss the impact of implementation PMK 191/2020 on palm oil industry players and determine strategies which able to compensate for those who losses due to the implementation of the policy.

HISTORY OF CPO'S EXPORT LEVY IN INDONESIA

Referring to of Law No. 39/2014 concerning Plantations, Article 93 revealed that to fulfill the financing of plantation development can be done among other things, through raising funds from plantation players intended to finance human resource development, research and development, promotion, replanting, plantation facilities and infrastructure. This law also has been followed up with Government Regulation No. 24/2015 regarding Plantation Fund Collection, Presidential Regulation No. 61 of 2015 concerning Collecting and Using Palm Oil Plantation Funds, PMK No. 113/2015 concerning the Organization and Working Procedures of the Palm Oil Plantation Fund Management Board, PMK No. 114/2015 concerning Public Service Tariff of the Palm Oil Fund Management Agency (BPDPKS) at the Ministry of Finance.

The implementation of export levy for CPO for the first time was carried out in 2015 based on PMK 114/2015, with a tariff of USD 50 per ton at each level of global CPO's price. The amount of export levy for CPO has not changed, although the government has revised regulations regarding the public service tariff of the Palm Oil Fund Management Agency (BPDPKS) through PMK No. 133/2015 and PMK No. 81/2018.

Along with the decline in world CPO prices, the government revised the amount of the BPDPKS BLU tariff or export levy tariff by issuing PMK No. 152/2018 in December 2018. Unlike the previous regulation which is flat rate, the new regulation imposes a levy based on a reference price with a progressive tariff rate in line with the increase in CPO prices. If the CPO reference price is below USD 570 per ton, no levy will be charged. If the reference price of CPO ranges between USD 570 - USD 619 per ton of CPO, then export levy of USD 25 per ton. And if the reference price of CPO is above USD 619 per ton of CPO, the export levy about USD 50 per ton

The declining trend in CPO prices continues in 2018-2019, this is cause the Indonesian government has issued policy about not to charge export levy for every ton

of CPO exported based on PMK 23/2019 that effective since March 1, 2019. The implementation of this regulation extended based on PMK 136/2019 which is effective since 30 September 2019.

In 2020, Indonesia Government has issued a issued a new policy of export levy for palm oil and its derivative products as stipulated in PMK 57/2020, which took effectively from June 1. If we compare with PMK 152/2018, CPO export levy in PMK 57/2020 has increased by USD 5 per ton and flat rate. It means regardless of whether the CPO's price is low or high, the same amount of export levy will be charged at USD 55 per ton.

Steering Committee of BPDPKS which consists of eight technical ministries such as Coordinating Ministry of Economic Affairs (chairman), Ministry of Finance, Ministry of Agriculture, Ministry of Industry, Ministry of Trade, Ministry of Energy and Mineral Resources, Ministry of State-Owned Enterprises, and Ministry of National Development Planning/Chairperson of the National Development Planning Agency, proposed an adjustment to the amount of export levy rates as stipulated in PMK 191/2020 which took effect from 10 December 2020.

The background of the adjustment of the palm oil export levy in PMK 191/2020 are the trend of increasing CPO prices and the sustainability of programs in development national palm oil industry. Especially during the pandemic, the gap between the fossil diesel's prices and FAME's prices continues to widen, which has an impact on the greater of biodiesel incentive that must be provided by BPDPKS, on the other hand the Indonesian Government continues to be fully committed to achieving the renewable energy mix through the B30 program. Not only that, other palm oil industry development programs such as replanting of smallholder farmers plantation (PSR), research innovation, development of smallholder human resources, and implementation of palm oil campaigns, promotions and advocacy both in domestic and international, also require sustainable supporting funding that comes from export levy.

If we compared with the previous regulation (PMK 57/2020) with PMK 191/2020, there was a change from the fixed rate to a progressive rate with a levy rate starting from USD 55 per ton (if the reference CPO price set by the Ministry of Trade is below or equal to USD 670 per ton) and this levy rate continues to increase by USD 5 per ton each incrasing of CPO's reference price by 25 per ton. The maximum export levy tariff is USD 255 per ton for a CPO reference price of more than USD 995 per ton. Meanwhile, the export levy tariff for palm oil derivative products is lower than the CPO's export levy tariff.

WHO AND HOW MUCH OF CPO'S EXPORT LEVY SHOULD BE BORNE BY THE PALM OIL INDUSTRY PLAYERS?

The export taxes or export levy is indirect taxes (based on volume or value) that will affect the market equilibrium and cause the price disparity between the CPO's domestic price and export price (FOB) which reflect world price (Fig. 1). In prior condition (before implementation of export levy), it was assumed that the price of CPO both in domestic and world market was the same, namely Pw. However, after implementing of export levy of "t", it will increase the export prices or CPO's price in world market to P'w= Pw (1 + t) and reduce CPO's price in domestic price to P'w= Pw (1 - t). In other words, there's a price disparity where the CPO's world price higher than domestic price aftrer the imposition of export levy.

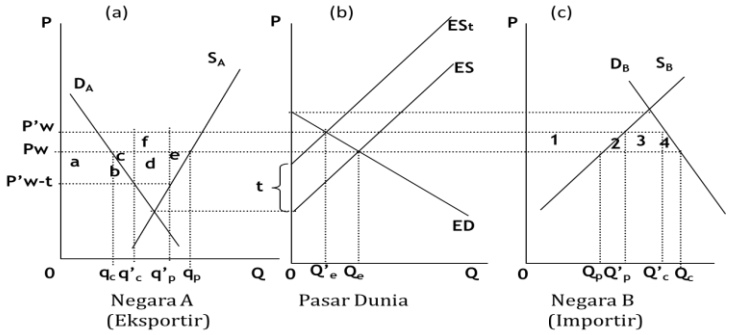

Figure 1. Impact of Implementation of CPO's Export Levy (Source: Tweeten, 1992)

The burden of indirect export levy will be transmitted (pass through) both in upstream and downstream along the palm oil supply chain. This means that although export levy imposed on CPO's exporter, however the burden of export levy will be transmitted to the domestic CPO and FFB market at the farmer level. This is because it cannot be separated between CPO/FFB that will be exported or will be used by the domestic downstream industry.

In PMK 191/2020, assuming an exchange rate of IDR 14 000/USD, so the burden cause the implementation of export levy in the average CPO price range of USD 670 per ton to USD 800 per ton are IDR 750-IDR 1890/kg CPO or equivalent to IDR 154 - IDR 378/kg FFB. The question is who and how much of CPO's export levy should be borne by the palm oil industry players?

Based on the impact of palm oil export levy on palm oil industry players, it can be divided into four groups, namely: (a) downstream actors; (b) integration actors of plantation - CPO/RPO (mill) - downstream industries; (c) CPO's producers; and (d) FFB's producers including farmers. ***First***, for the palm oil-based downstream industry players such as cooking oil industry, oleochemical industry, and biodiesel industry, get the benefit from the progressive of palm oil export levy. They can obtain CPO as raw material with cheaper prices. Biodiesel industry actually get double benefits from the implementation of PMK 191/2020. Apart from obtaining cheaper raw material, biodiesel producers also receive a guaranteed selling price from Pertamina with financing incentive from the palm oil fund (the result from export levies).

Second, the industry integration of oil palm plantation company - CPO/RPO (mill) - the downstream industry, where business actors implementing this integration system are the top six palm oil industries in Indonesia. The impact of these export levy on the CPO chain is indeed detrimental to IDR 750-IDR 1,890 per kg of CPO (for a price range of USD 500-800 per tonne of CPO). Considering that about 40 percent of the FFB required by CPO mill) is fulfill from outside from their plantation itself, so the levy can be partially transferred to the FFB producer (their supplier). The amount transferred depends on the PKS bargaining power in the local FFB market. Then, because the integrator also has a downstream industry (cooking oil industry, oleochemical industry, biodiesel industry), they also enjoy benefits such as lower raw material price and "incentives" for biodiesel producers. So, overall this integrator enjoys an advantage.

Third, oil palm plantation actors with CPO mill such as state-owned companies and middle-class private companies. The impact of CPO's export levy will make them losses of IDR 750-IDR 1,890 per Kg of CPO (in the price range of USD 500-800 per ton of CPO). Generally, for actors who have their own plantations with CPO mill, some of FFB (30-40 percent) are supplied from outside their plantations, so that some burden of can be transferred to the FFB supplier. But overall, these actors suffered losses.

Fourth, actors who only have oil palm plantations with production in the form of FFB, the actors including 2.67 million of farmers and also middle-class oil palm plantation companies without CPO mill. The impact of export levy on this group is losses around IDR 154-378 per kg of FFB (in the

price range of USD 500-800 per ton of CPO). The magnitude of the loss could be greater in the condition of the weak bargaining power of oil palm farmers and palm oil mill at the local level. Even the potential losses incurred by smallholders could be greater depending on the bargaining power that the farmers have to deal with local CPO mill. Facts also show that farmers especially independent farmers often facing discounted purchase prices in CPO mill. There are cases of "unscrupulous" CPO mill who use the excuse that independent farmer's FFB is considered illegal and do not have ISPO certification, so the FFB's price received by farmers is discounted by around 30-40 percent. This shows that independent smallholder farmers must facing double losses.

Thus, the impact of palm oil export levy (PMK 191/2020) is make a loss for FFB and CPO producers. On the other hand, the integrator of oil palm plantation company - CPO/RPO (mill) - the downstream industry, as well as the downstream industry players actually enjoy the benefits (gain). However, in total it can be ascertained that the losses suffered by the FFB and CPO producers is greater than the profits enjoyed by the integrator industry and the downstream industry.

This analysis results are also in accordance with economic theory which states that the implementation of indirect export taxes (in this case export levy) will affect the welfare of market players who trade off each other (PASPI, 2020). Consumers (downstream industries or industrial integrators) will get benefit (gain) by enjoying an additional surplus, while producers (farmers and plantation companies without PKS) will suffer losses and the total surplus will decrease. Such trade-off conditions should be avoided, because the aim of trading is to create benefits for all market participants (gain of trade).

Therefore, to achieve a win-win condition, Government must to create a compensation scheme to cover some part or all of the losses incurred by market players who lost due to the implementation of the new export levy tariff, namely CPO and FFB producers, especially smallholder farmers. The compensation is the optimilization of allocation of palm oil funds came from export levies for development of smallholder farmers through programs mandated by the Plantation Law such as replanting, human resource development, research innovation, promotion and provision of plantation infrastructure. In addition, another form of compensation that is appropriate for oil palm farmers is supporting for development of the institutional oil palm farmers in the area equipped with IVO (Industrial Vegetable Oil) mill, which can supply raw materials for biohydrocarbon products (green diesel, green gasoline and green avtur)

CONCLUSION

In line with trend of increasing CPO prices and the sustainability of programs in development national palm oil industry, such as biodiesel mandatory (B30) and replanting (PSR), these programs require sustainable supporting funding that comes from export levy. Therefore, Indonesian Goverment made an adjustment of the palm oil's product export levy rates set out in PMK 191/2020. In this regulation, the amount of the CPO's levy tariff is progressive at a certain price threshold by following the reference price set by the Ministry of Trade. The export levy rates range from USD 55 per ton - UD 995 per ton, or an increase of USD 5 per tonne every increase in the reference price of CPO by 25 per ton.

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