

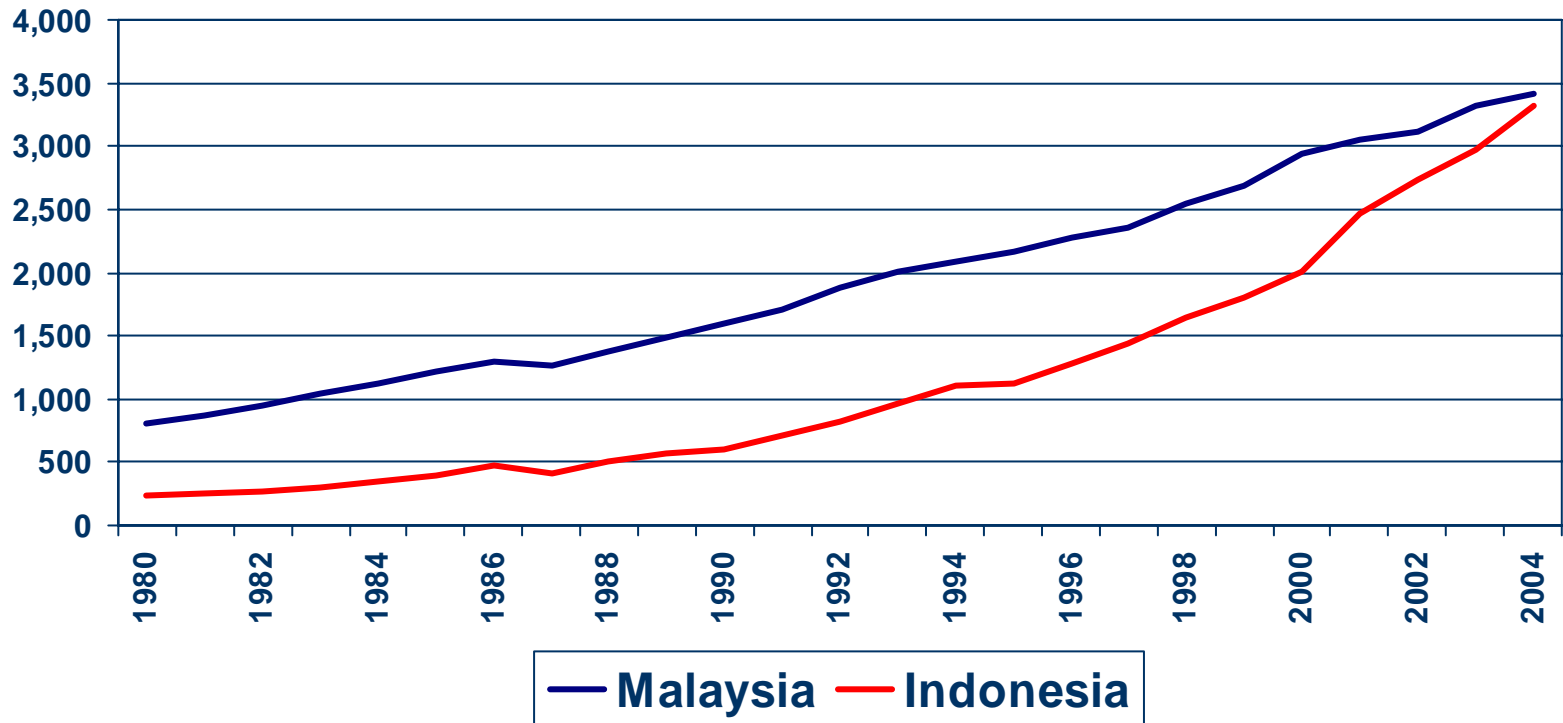
Development of Palm Oil and Related Products in Malaysia and Indonesia

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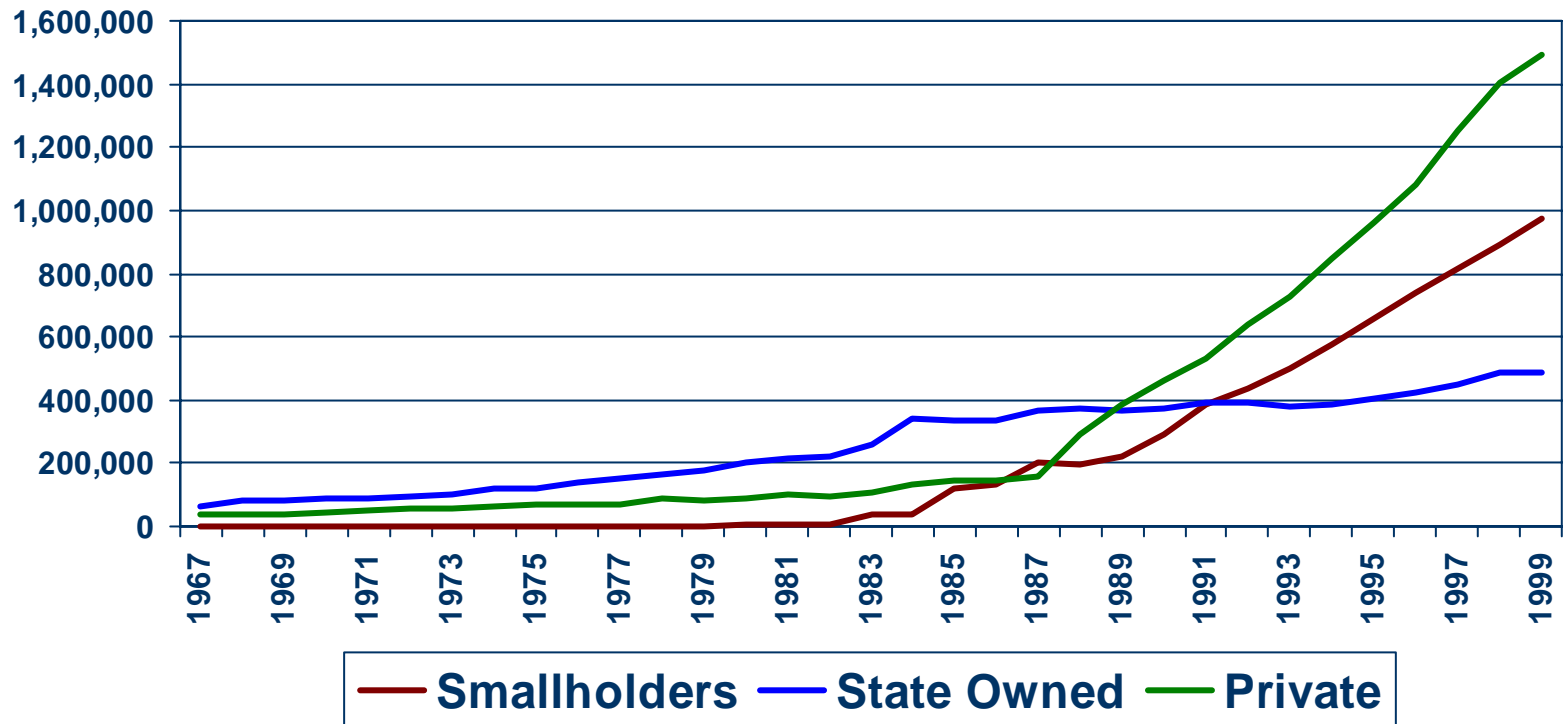
Historical Perspective

- Western African Origin
- Introduced To Indonesia 1850 And Malaysia 1890
- Malaysia overtook Nigeria as the world's leading exporter (1966) and producer (1971)

Palm Oil Planted Area [1000 Hectares]



Ownership of Plantation: Indonesia



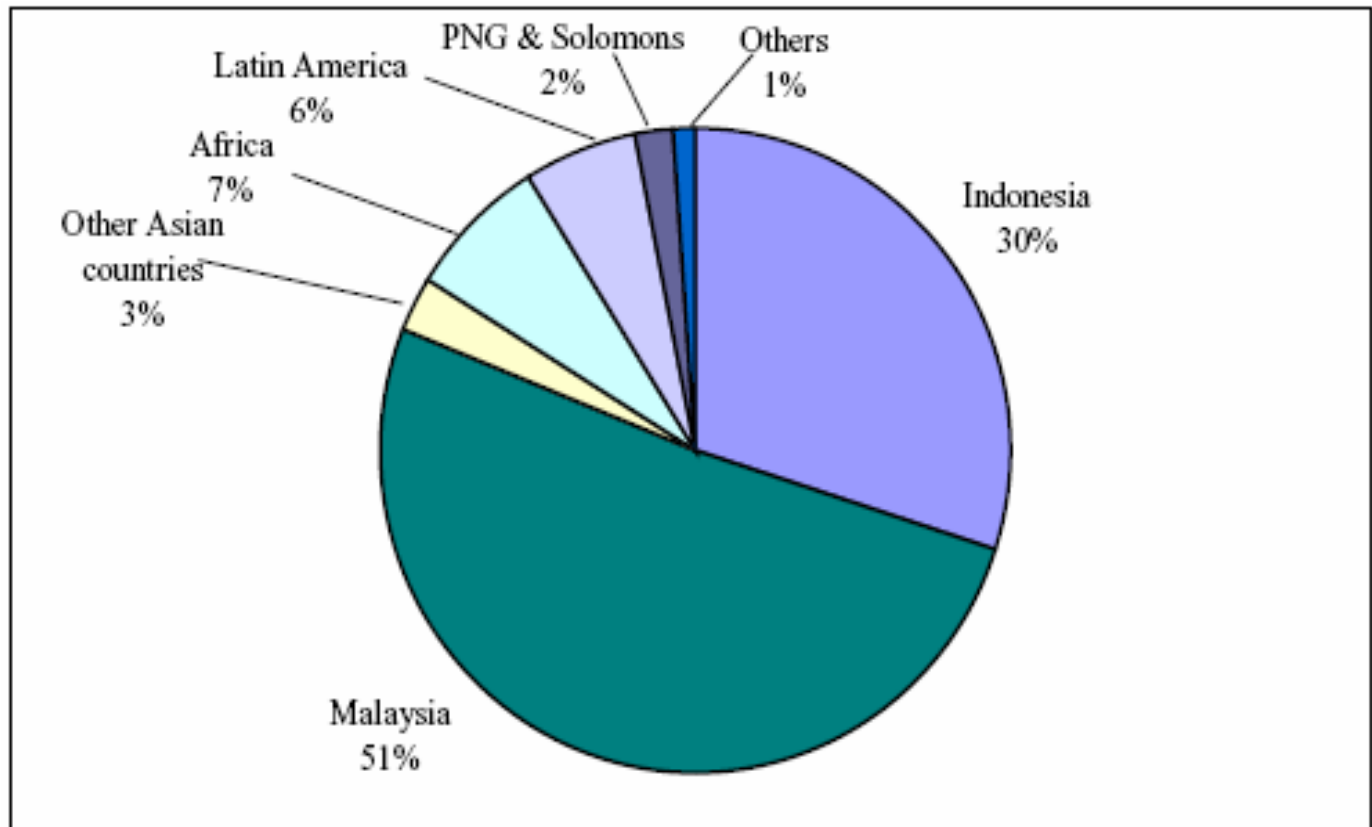
Ownership of Plantation

Smallholders owned

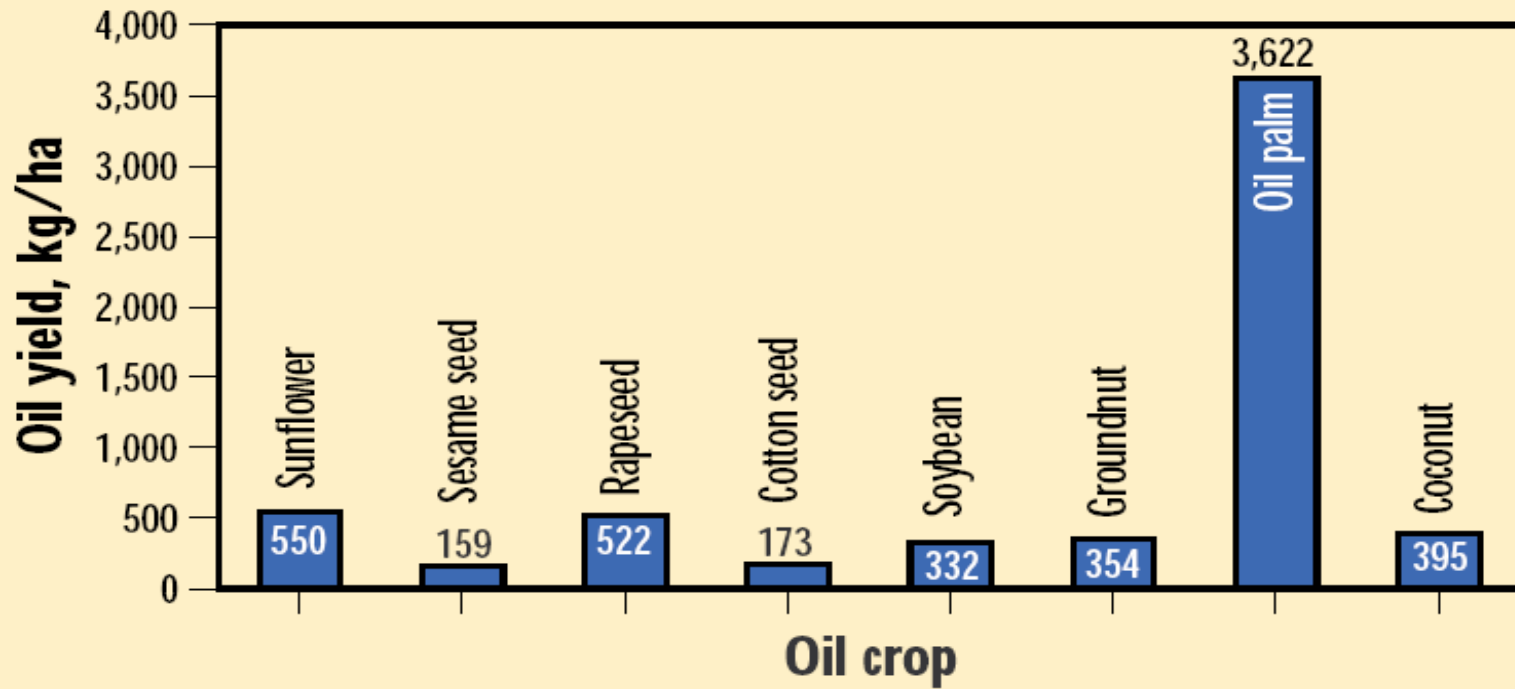
- Indonesia, 33% (Pir-trans)
- Malaysia, 20% (FELDA)

Strategic Role To Alleviate Rural Poverty

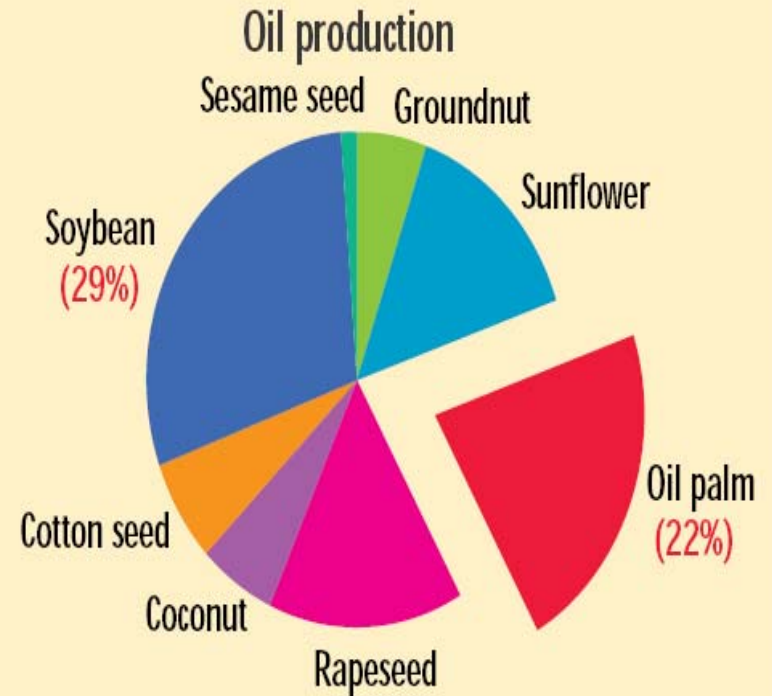
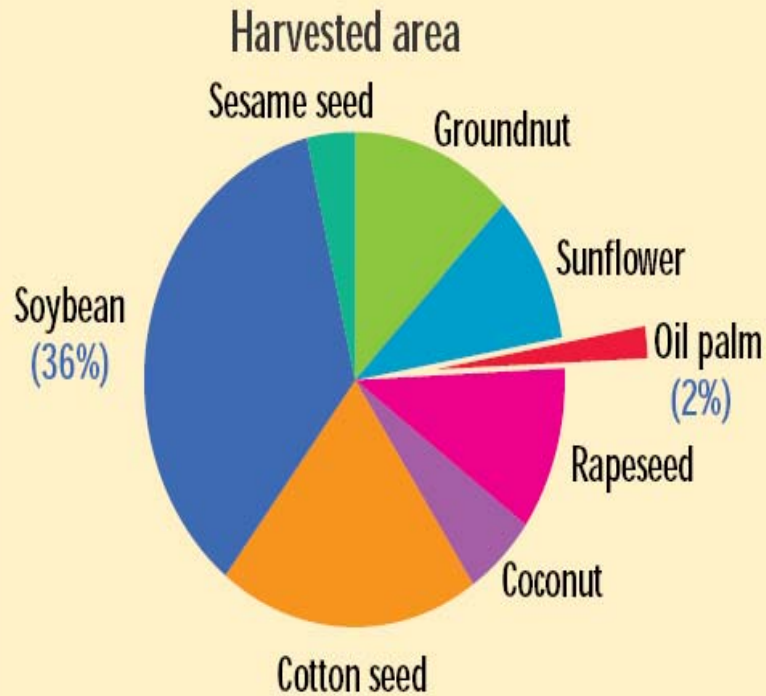
Share of CPO Global Production



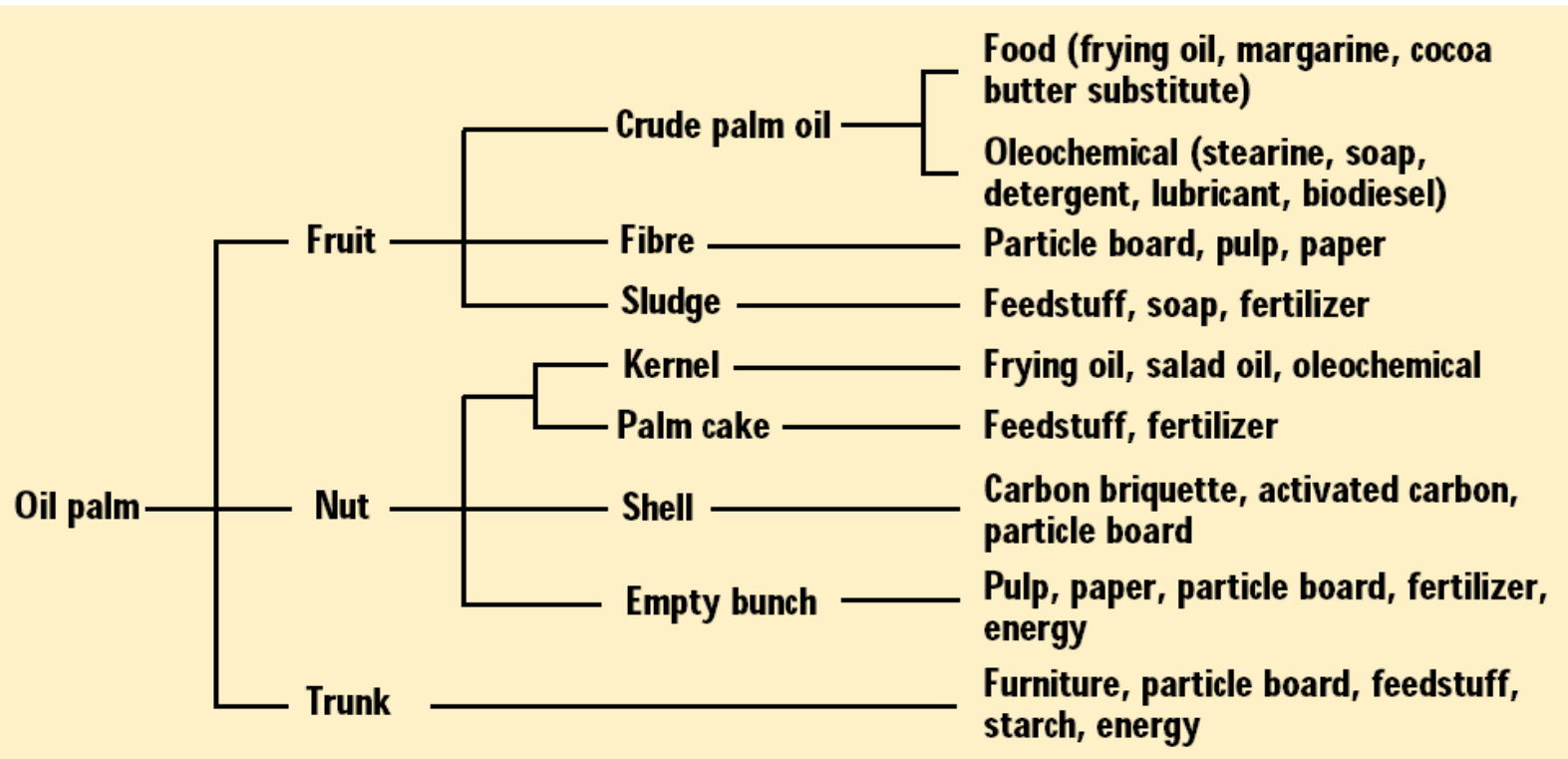
Palm Oil Yield



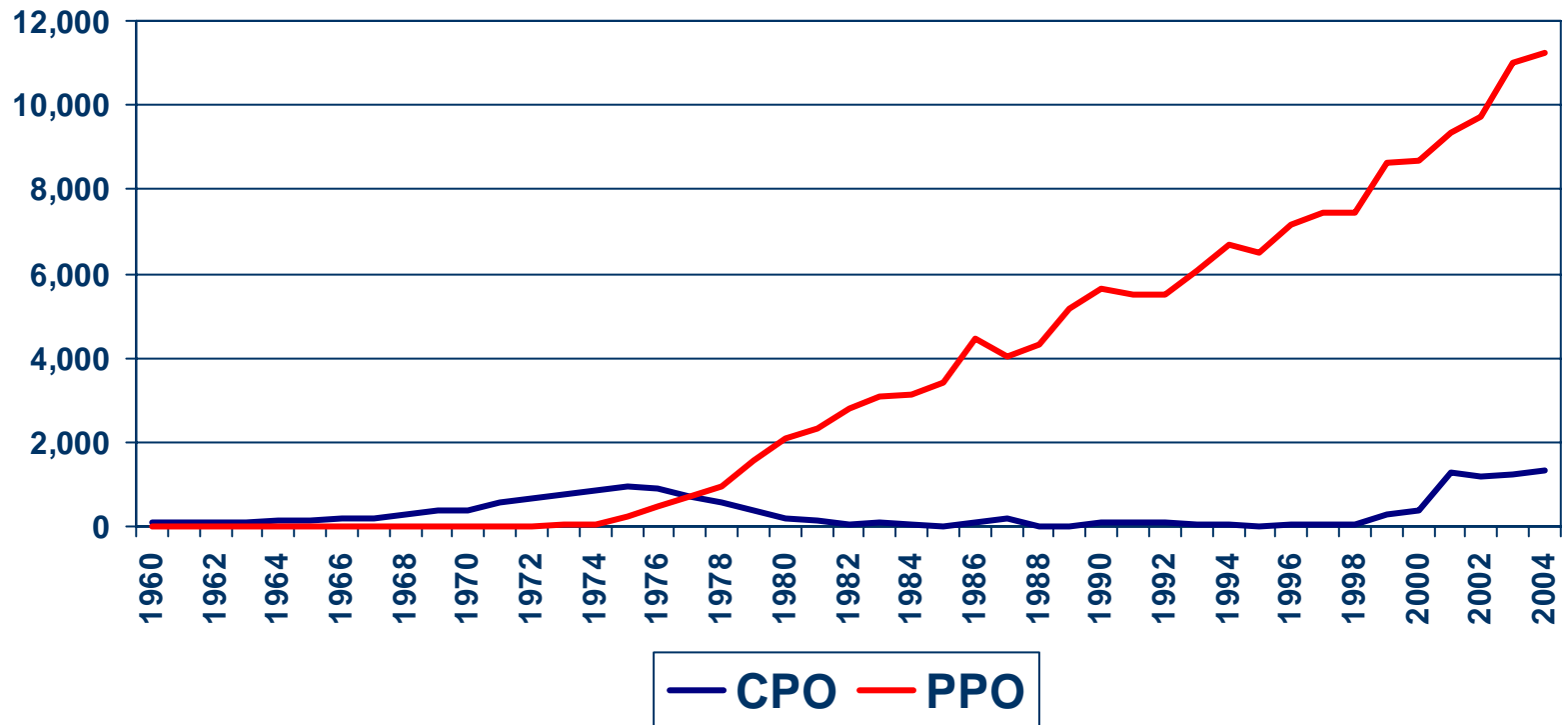
Palm Oil Production



Palm Oil Value Chain



CPO vs PPO: Malaysia



CPO vs PPO

- In 2004, PPO was 90% of Malaysia's Palm Oil Exports
- PPO was only 65% of Indonesia's Palm Oil Exports
- In 2005, Malaysia had 47 refineries with a capacity of 16.3 million tonnes of CPO in excess of domestic production of 14 mt

Not The Lowest Cost Producer

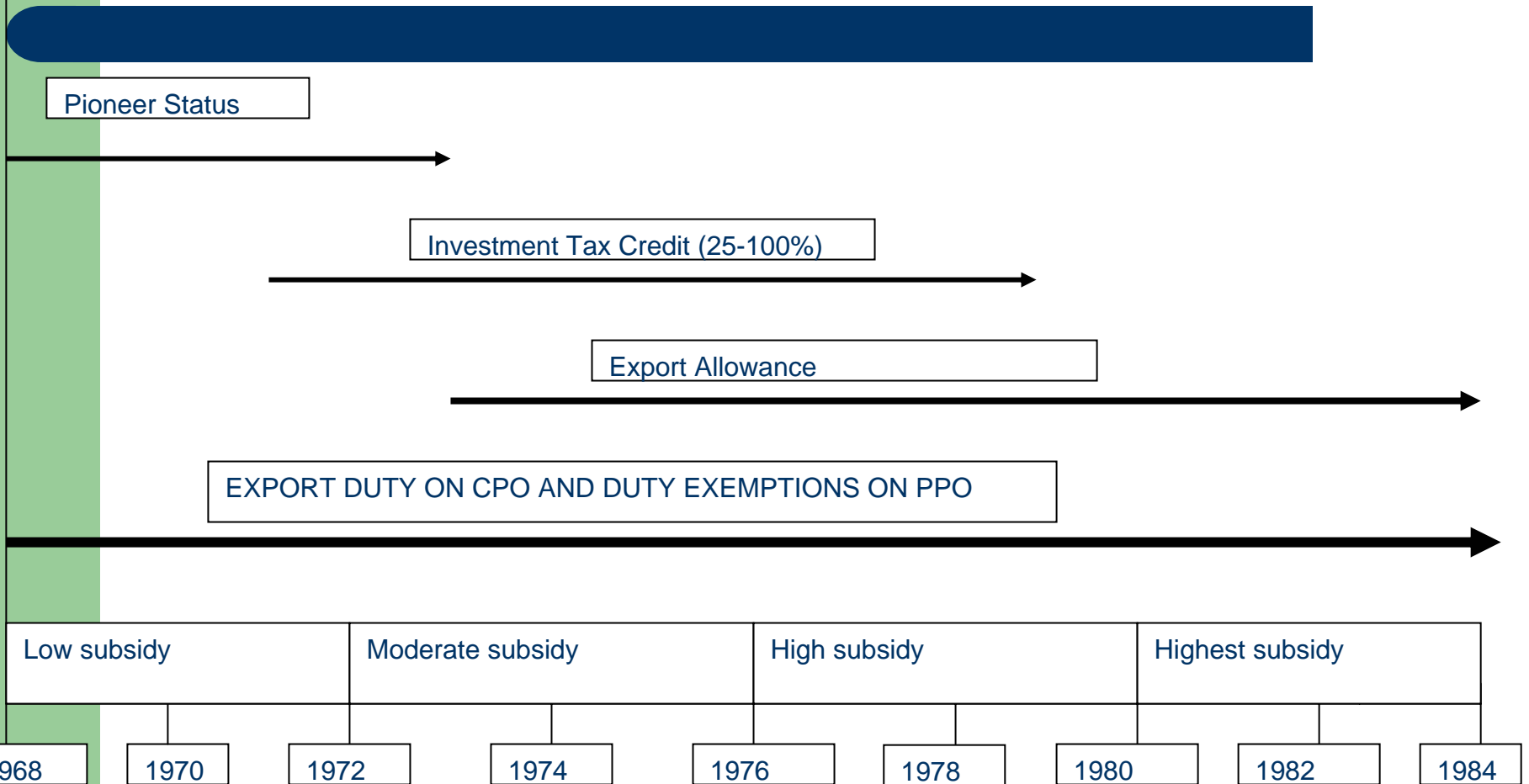
TABLE 3. COSTS OF PRODUCTION (selected oils and fats)

Country	Oil	USD/t
Indonesia	Palm	165.20
Malaysia	Palm	239.40
Colombia	Palm	292.80
PNG	Palm	215.80

But The Most Competitive

	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

Malaysia: Building the world's biggest refining capacity



Source: Adapted slightly from Jaya Gopal (2001: Figure 6.2)

Indonesia's Cooking Oil Policy

- Fixation on Keeping Cooking Oil Stable
- Inconsistent Export Tax and Controls
- Perverse Incentives, Excessive Rent Seeking

Disincentives of Export Tax

Explanations	Unit	Mean	Impacts of export tax implementation (%)
Mature area	'000 ha	1 444.86	-2.56
Production	'000 t	4 483.95	-0.81
Export	'000 t	2 371.03	-6.20
CPO price	Rp/kg	1 524.54	-8.58
Cooking oil price	Rp/kg	2 366.85	-7.77
FFB price	Rp/kg	342	-8.58
Gross margin	Rp/ha/yr	3 512 116	-11.35

Welfare Implication

Explanation	Unit	Means	Impacts of tax policy (%)		
			Tax 20%	Tax 40%	Tax 60%
			Ef. 4.78%	Ef. 9.55%	Ef. 14.33%
FFB price	RP/Kg	533	-6.61	-10.69	-15.12
Gross margin	Rp/ha/t	5 888 299	-8.79	-14.38	-20.56
Producer surplus	Billion Rp	4 348.26	-7.14	-11.76	-17.30
Consumer surplus	Billion Rp	25 140.12	5.11	8.14	11.27
Total surplus	Billion Rp	29 488.38	3.39	5.45	7.53
Value-added	Billion Rp	13 150.26	-7.03	-11.56	-16.44
Labour	Million	1.90	-0.49	-0.90	-1.32
CPO tax	Thousand USD	-	85 583	174 506	266 587
CPO tax	Billion Rp	-	599 084	1 221 544	1 866 108

On Hindsight...

“Cooking oil contributed less than 4% of the household budget of the poorest 20 percent of the rural population. As a result, the 21 percent increase in the prices of cooking oil in 1994 only contributed 0.3 points to the inflation rate. Further, the costs to the poorest consumers of the increase in palm oil were equivalent to a 0.4 percent decrease in their household income. It is unlikely, with average incomes growing at more than 6 percent, that the price increase generally created a burden for consumers.”

Lessons

- ☑ Consistent and coherent industrial policy
- ☑ Network cohesion to engender dynamism
- ☑ Export Orientation
- ☑ Conversion of Rents Into Productivity
- ☒ Creation of Risk and Uncertainty
- ☒ Unproductive Rents
- ☒ Weak Market Coordination