

TAX POLICY ON EXPORTS OF CRUDE PALM OIL PRODUCTS IN INDONESIA: CHALLENGES AND DILEMMAS

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Abstract

Government policy on the application of export tax for crude palm oil and its derivatives is preferred to increase government revenue and protection for domestic industry. Potentially, the beneficiary of the application of export taxes is domestic consumer (downstream industry), government and Indonesia's export competitors. Benefit on crude palm oil downstream industries because of the application of the export tax would push the price of crude palm oil and its derivatives in the domestic market. State revenues will increase according with to the tariff, price and export volume. The application of export tax tends to reduce the volume of exports, so that foreign exporters benefit from a reduction in exports of crude palm oil and its derivatives by Indonesia. Meanwhile, the injured parties from the application of export taxes are crude palm oil producers, importers, service providers in the port, input suppliers oil palm estates and state revenue. Export tax would depress prices in domestic market so it results in a disincentive for producer crude palm oil and its derivatives. Based on the above problem, this paper aims to criticize the policy of export tax on crude palm oil industry that has a different impact for consumers, industry, importers, and governments. The second objective to describe by steps to achievement of the implementation of the export tax and the amount of export tax rates to consider benefits for all stakeholders of national oil palm, burden to be borne by stakeholders and the rule of law and its impact on Gross Domestic Product (GDP), the performance of oil palm agribusiness and farmers' income. Problems of implementation of the export tax, the important thing to note is the norm that can be used as a reference in determining the amount of crude palm oil export tax rate and its derivatives. For the determination of the amount of crude palm oil export tax rate should be considering (i) its only charges, not taxes, (ii) a high rate has the potential to destabilize crude palm oil international markets that could pose a negative impact on the crude palm oil domestic market (iii) adjusted by the need for program and activities of development of crude palm oil national industry.

Keywords: export, tax, crude palm oil, policy, regulation.

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Introduction

Crude palm oil (CPO) has contributed to gross domestic product, regional development, employment, and welfare of Indonesian society [3][6]. However, today the problem is the compatibility between the level of demand and price of CPO in the international and domestic markets. It is based on the fluctuation of domestic CPO price significantly influence the condition of the cooking oil industry [5]. Fluctuations in oil industry are responded by the exporter to export the CPO on a large scale leading to decreased supply of CPO for cooking oil industry in the country.

The trend of exports in large-scale of CPO causes the government to strategize on export tax policy to reduces the number of CPO export in large amount and create a stable cooking oil industry in Indonesia [8][9]. Other problems arise related to positive and negative impacts with the implementation of the CPO export tax policy to the existence of international trade in Indonesia. Therefore, this study aims to explore the policy of export tax rates for crude palm oil industry has a different impact for consumers, industry, importers, and governments. On the other hand, this study also aims to formulate a strategy in achieving the implementation of the export tax and export tax rates by the amount of benefits for all stakeholders to consider the national oil palm, the burden to be borne by the stakeholders and the rule of law and its impact on gross domestic product, the performance of coconut palm agribusiness and farmers' income.

Theoretical Review

Export tax on palm oil serves as an instrument to regulate the amount of palm oil exports to maintain the availability of raw materials of cooking oil industry in the country [9]. In the case of CPO and derivatives products, according to section 2 and 3 PP 35/2005, the export tax rate was set by *advalorem*. Amount of export tax is calculated based on the formula: $\text{export tax rate} \times \text{total export} \times \text{export price} \times \text{exchange rate}$. Tariffs on CPO export tax and derivatives products are set at a high 60% [2]. The amount of export tax tariff and the exchange rate set by the Minister of Finance. The amount of the export benchmark price is by the Ministry of Commerce. While the other ministry, such as the Ministry of Agriculture and Ministry of Industry, just gives consideration and / or suggestions for setting the tariff and export reference price [1]. Above formulation essentially does not change the provisions applicable before the export tax. The purpose of the imposition export tax for export goods, such as CPO and its derivatives (section 2,

subsection 2) is to (i) ensure the fulfillment of domestic demand, (ii) protect the sustainability of natural resources, (iii) anticipate the effect of price dramatic increases from certain export goods, and (iv) to maintain price stability of certain goods in the country.

Research Method

This research used descriptive analytical method. Descriptive analysis is a method of related to the collection and presentation of a group of data that provide useful information [6]. The focus of this research was to describe the various forms of challenges, dilemmas and appropriate policy recommendations in the determination of the export tax tariff in Indonesia.

Result

The application of the export tax rate on CPO and its derivatives contains a beneficial and detrimental consequences. Potentially, the beneficiary of the application of the export tax rate is the domestic buyers (downstream palm oil), and the government of Indonesia's export competitors for these products. Palm oil downstream industries benefit from the application of the export tax rate will push the price of CPO and its derivatives in the domestic market. State revenues will increase in accordance with the tariff, price and export volume. The application of the export tax rate tends to decrease the volume of exports, so that foreign exporters benefit from the reduction in exports of CPO and its derivatived by Indonesia is a market opportunity for them.

Meanwhile, the injured parties from the application of the export tax rate are palm oil and palm oil producers nationwide, the buyer (importer) of CPO and its derivatives in foreign countries, service providers and suppliers in the port input and state oil palm plantations. Export tax rates will depress prices in the domestic market resulting in a disincentive for manufacturers to produce CPO and derivatives them. This can either reduce use of inputs so that input suppliers are also experiencing the impact of producer losses. Especially for the case of CPO, employers will push CPO prices of fresh fruit bunches (FFB) produced by farmers [3]. So implicitly, FFB is also affected by the export tax, even if farmers do not export. Furthermore, decreased production of CPO and its derivatives led to exports of CPO and its derivatives down. This resulted in a decline in exports in the foreign importers unfulfilled. In fact, if the application of the export tax rate

by Indonesia raises price shocks in the international market, the importers will buy CPO and its derivatives at a price higher than without the tax rate on exports. Decline in export volume is also meant harm businesses in the port and the country also lost income.

The imposition of export tax tariff couldn't be separated from the phenomenon of development of domestic exports of CPO. Indonesia's CPO exports growth is influenced by three factors: (1) factor of CPO in the world market demand, (2) the development and production of domestic crude palm oil market and (3) the influence of the competitiveness of Indonesian CPO [6]. This suggests that the CPO be closely related to the upstream sub-system (area and production of crude palm oil), trade and export to downstream industries. In the supply-demand balance of oil palm Indonesia there is a tendency that export orientation is getting higher and higher at the rate of 15.44 percent per year, and this is evident since the reform era in 1998 [5] [6]. Earlier in year 1979-1997 the proportion of domestic exports of palm oil was 40 percent of total production while the post-reform (1998 to present) the proportion of exports has reached 63 percent of total domestic supply of CPO. Increase in domestic exports of CPO couldn't be separated from the growing demand for palm oil in international markets because CPO has an increasingly large role in the international market to meet world demand for oil and fat.

Basiron (2002) project a growth rate higher than CPO other vegetable oils. His projection is proved, where by 2010 the proportion of palm oil consumption has surpassed soybean oil on the world market with a share of 28.01 percent respectively, and 23.77 percent [9]. Palm oil consumption rate is relatively higher (70 percent) compared with soybean oil (54 percent) in the period 1995-2002, and in 2020 the world's palm oil consumption is expected to reach 67 million tons in 2020 or with a share of 45 percent of total edible world oil [9].

Increased consumption is influenced by the increasing number of population, income per capita, as well as world demand for palm oil as raw material for industry in the EU, increased demand for palm oil imports by country of India and the PRC [9]. CPO demand on the world market is predicted to increase in the future. This was partly due to the increased demand in the countries of the world starting to use the commodity for biodiesel. Energy products are relatively environmentally friendly and can replace conventional fuels. CPO resulted in high demand in world market prices rose sharply. The above description shows the same relation to one another, both in domestic and international market. Domestic excess demand pushes up the price of CPO in the domestic market an

average of 2.26 percent per year, and the market price as a signal encouraging the growth of oil palm area of Indonesia, particularly by smallholders (independent farmer) as well as private estates [6]. Susila (2004) mentions the backward linkage to industries upstream CPO is 1, meaning that there is a relationship that is strong enough for CPO development of industrial expansion and development of upstream oil palm Indonesia. Excess demand for CPO in the world market (global excess demand) resulting in CPO prices increases by an average 1.96 percent per year and charm of this price is a factor which encourages the Indonesian CPO exports

Currently, the provision state that the Minister has issued new export tax rate, which is 3% for fresh fruit bunches and the nucleus (seed) palm oil and CPO, and 1% for crude olein (RBD Olein), Refined Bleached Deodorized palm oil (RBD PO) Refined Bleached Deodorized and Olein (RBD Olein) [1][4]. Exchange rate is determined by the Minister of Finance at the time of payment of export taxes done. The amount of export benchmark price is not determined by the Ministry of Commerce. According to the Ministry of Commerce, according to the rules for this, if there has been no determination of the new export benchmark price, it is still in force. Supposedly, according to PP. No. 35/2005, export benchmark price of CPO and its derivatives refer to international prices, ie prices in Rotterdam are currently around U.S. \$ 420 per ton.

Yet the adoption of export tax for CPO and derivatives products cannot be separated from the determination of the value of the export tax rate and export benchmark price. The problem revolves around the choice between (i) export tax rate fall from 3% to say 1% with export benchmark price adjusted to market prices in Rotterdam or (ii) fixed 3% rate of export tax with export benchmark price also still U.S. \$ 160 per ton. Current CPO export tax rate of 3% has been set, so the debate between the Association of Indonesian Oil Palm Business and the government to stay on the magnitude of export benchmark price.

Table 1. Export tax tariff, export benchmark price, price and the exchange value of CPO and derivative products in Indonesia

Year	Export Tax Tariff (%)	Export Benchmark Price (US\$/ton)	Price (US\$/ton)	Exchange Rate (RP/US\$)
July 98- Feb 99	60	610	650	14.550
Feb 99- June 99	40	535	535	8.850
June 99- July 99	30	365	440	8.171
July 99- Sept 99	10	260	312	6.873
Sept 99- Feb 01	5	190	335	8.250
Feb 01- June 02	3	160	175	9.598
June 02- March 05	3	160	429	9.750

Source: Directorate General of Taxes

By the determination of export tax tariff and export benchmark price issues above, the important thing to note is the norm of what can be used as a reference in determining the tariff of export tax and export benchmark price CPO and its derivatives. For export tax tariff CPO, determination of the amount should be taking into account (i) its only charges, not taxes, (ii) high rates of international CPO market potential interference that may cause negative impact to the CPO domestic market (iii) adjusted to the needs for programs and development activities of national oil palm industry and target non-tax revenues. Point (iii) it may well be a consideration in determining the addition to take into account the interests of the export benchmark price business services and corporate profits and the oil palm growers. To that end, the study and simulation of export tax tariff and export benchmark price is necessary.

Conclusion

Export tax policy effectively puts a halt to Indonesian CPO exports and is able to cope well with fluctuations in oil prices in the country. But the increase in export taxes has a negative impact on the competitiveness of Indonesia's CPO exports, thereby increasing demand for crude palm oil in world markets would be utilized by the State of Malaysia. In addition, the imposition of export tax increases consumer welfare and lowers the welfare of producers.

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