ABSTRACT

NOVINDRA. Impacts of Domestic Policies and External Factors on the Crude Palm Oil Producers’s and Consumer’s Welfare in Indonesia (BONAR M. SINAGA as Chairman and D.S. PRIYARSONO as Member of the Advisory Committee).

Besides its promising prospect in the world market, crude palm oil (CPO) in Indonesia plays an important role to fulfill the need of domestic downstream industries (such as palm cooking oil, oleo chemical, margarine, soap, and biodiesel) for their input procurements. Broad changes in the structure of regional and global economy will affect production, consumption, and trade of CPO and palm cooking oil in Indonesia. The objectives of this study are to analyze the affecting factors of supply and demand for CPO in domestic and world markets and to evaluate (2003-2007) and to forecast (2012-2016) the impact of domestic policies and external factors on the performance of CPO industry in Indonesia. This study was conducted by formulating an econometric model of CPO industry. The model specification was dynamic simultaneous equations and consist of 27 behavioral equations and 12 identities. Model identification was performed by using the order condition criteria, while model was estimated by using 2SLS method. The result show that domestic price of CPO is more responsive to changes in domestic demand quantity of CPO than export demand of CPO. Moreover, the developing of domestic downstream industries of CPO will increase the quantity of demand for CPO, hence it can increase the prices that is received by CPO producers. Domestic policy in the form of restrictions on exports of CPO with determination of the export tax rate of 20 percents can improve the net welfare that is more than the policy of domestic quota (increased domestic supply of CPO) and the policy of export quota. Increasing domestic supply of CPO gives a negative impact on net welfare. This is because the increasing in domestic supply of CPO has not been supported by the development of downstream industry of CPO (besides palm cooking oil industry), thus increasing the domestic supply of CPO will decrease the domestic price of CPO and domestic price of palm cooking oil. In the long run, after the downstream industries of CPO developed rapidly, the government should focus on policy of domestic market obligation (DMO) for CPO companies, hence they will commit to supply CPO domestic. Finally, the DMO policy will fulfill the needs of downstream industry.

Key words: Crude palm oil (CPO), domestic policies, change of external factors, Producer’s and Consumer’s Welfare