

Crude palm oil

Economics



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On Asian crisis 1998, the palm owner and businessman still could face the crisis smugly. The base price of crude palm oil (CPO) for one fresh stem of oil palm (tandan buah segar) was USD 600 per ton, but with the exchange rate of Rp 16. 000 per 1 USD, the producers were quite blessed from the crisis condition. With the average area ownship was at minimum 2, 5 hectare each farmers with the output of 2 tons per hectare crude palm oil, the farmers gained at least USD 12. 000 (2, 5 hectare x 2 tons x USD 600).

The reason was the demand of CPO was still high. Even in China, although it was in Asian region, its economic was growing. It happened also in India. In Europe, countries like Germany and Netherlands were consumers of crude palm oil originated from Indonesia and Malaysia. It was very much affected positively the farmers and the local economic.

A very different story came up on crisis on September 2008. The price of CPO declined and so was the demand. The producers were on the edge of the egg. A lot of TBS were left unharvested by the farmers because the price went down to Rp 300 per kg from Rp 1. 200-1. 400. Big players in Indonesia and Malaysia were oversupplied. The firms were to hold on their expansion or to hold the planting.

The crude palm oil was now a disaster. If before it was a green gold, now it was a dead card. Victims were tumbling down. Now, could the price shine again on the next year? A lot of people depended on bio fuel programs in most countries as an anchor price. If that was the case, the CPO price would be better. The problem was the oil price was on the bullish and made the bio fuel was more expensive than the fuel.

Now the case questions were what the producers should do? What government should do? What were the real threats on this business? How could we control the prices? How could we adjust with macroeconomics environment? If Indonesia had a comparative advantage for area of plantation, would it be still comparative advantage or became big liabilities? Why Indonesia did not start to develop the downstream crude palm oil industry?