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INTERNATIONAL POLICY IMPACTS ON PALM OIL IN INDONESIA

Indonesia produces roughly half of all palm oil and palm kernel oil globally. Palm oil has a variety of uses in food, animal feed, oleochemicals, and other industrial purposes. One significant use of palm oil is in biodiesel and renewable diesel production, which can substitute for diesel fuel in transport and other uses. A new ICCT study, *International policy and market drivers of Indonesian palm oil demand*, reviews and analyzes the impact of renewable fuel policies, biofuel and palm oil import tariffs, and other palm oil market drivers in the top five palm oil importing countries and regions: China, the European Union, India, Pakistan, and the United States.

KEY FINDINGS

Global demand for palm oil has been growing rapidly, with worldwide imports almost tripling since 2000. Indonesia produces 51% of international palm oil and palm kernel oil imports. Although exports of palm biodiesel from Indonesia are less than one-tenth those of palm oil, some countries process imported palm oil into biodiesel and renewable diesel domestically. While overall palm oil demand continues to grow rapidly, the trend in imports varies considerably by country.

- » **China.** Palm oil imports in China are almost entirely driven by demand for food, feed, and oleochemical ingredients, rather than biofuels. Since 2008, palm oil imports have stagnated due to increased soy oil supply from crushing imported soybeans for livestock feed. A 25% duty on U.S. soybeans imposed in 2018 could potentially increase demand for palm oil imports, but China may supplement U.S. soybean imports with soybeans from South America.
- » **European Union.** Countries in the European Union have been increasing palm oil imports, using more than half in biofuel production and the remainder in food and livestock feed. The increase has been largely driven by the Renewable Energy Directive (RED), which requires 10% of the energy consumption in road and rail transport in 2020 to be from renewable sources, increasing to 14% in 2030. The RED will phase out biofuels produced from feedstocks associated with high land-use change impacts over the period 2020-2030, which could potentially apply to palm oil. However, biofuel feedstocks certified as having low indirect land-use change impacts would be exempt from the phase out. The EU imposed anti-dumping duties on Indonesian biodiesel in 2013 and repealed them in 2018.
- » **India.** Palm oil imports have been rapidly growing in India since 2006, mostly for use in food and, to a lesser extent, oleochemicals. Per capita vegetable oil consumption in food has increased dramatically in India. Palm oil imports were expected to decline due to a sharp rise in import taxes in early 2018, but a subsequent increase in taxes on other vegetable oil imports may enable continued competitiveness of palm oil imports.
- » **Pakistan.** Imports of palm oil by Pakistan for use in food and oleochemicals have been quickly increasing. The government is considering an increase in palm oil import duties, but this change is not certain.
- » **United States.** The United States has grown from a modest importer of palm oil in 2000 to one of the top importers globally, although it still consumes much less palm oil than China, the EU, and India. The U.S. mandates increasing use of biofuel with the Renewable Fuel Standard (RFS), but palm biofuel is not eligible unless it is produced at facilities constructed before 2010. None of the approved facilities are located in the U.S. A tax credit for both domestic and imported biodiesel has contributed to palm biodiesel imports from Indonesia, but these imports fell in 2018 once anti-dumping tariffs on Indonesian biodiesel were announced. The large increase in soy oil used for biofuel in the U.S. has been linked to the recent increase in palm oil imports, which are used for food and other non-biofuel uses.

Public policy changes domestically and internationally can influence the global demand for palm oil. The projected growth trend in palm oil and the impacts of potential policy changes are illustrated and described in more detail below:

- » **“Status quo.”** This scenario is based on extrapolations of recent trends in the major palm oil importing countries listed above, as well as the rest of the world. Strong growth in global palm oil demand is expected to continue. Potential changes in renewable fuel policy are unlikely to significantly affect the global palm oil market.
- » **“EU phase out.”** If the EU completely phases out palm oil biofuel, which is unlikely, global palm oil demand would be 3% lower than in the status quo scenario.
- » **“Indonesia B20.”** Indonesian biofuel policy could potentially have a slightly larger impact on global palm oil demand if the government maintains the 20% biodiesel blending mandate (“B20”) rather than increasing to 30% as currently planned.
- » **“U.S. end tariffs.”** An end to U.S. tariffs on palm biodiesel would not have a discernable effect on the global market.
- » **“No growth in Asia.”** Changes in palm oil demand from Asian countries could potentially have a much larger effect on Indonesian palm oil exports. In this scenario, where palm oil imports flatten, the reduction in global palm oil demand compared to the status quo scenario would be four times larger than the “EU phase out” scenario.

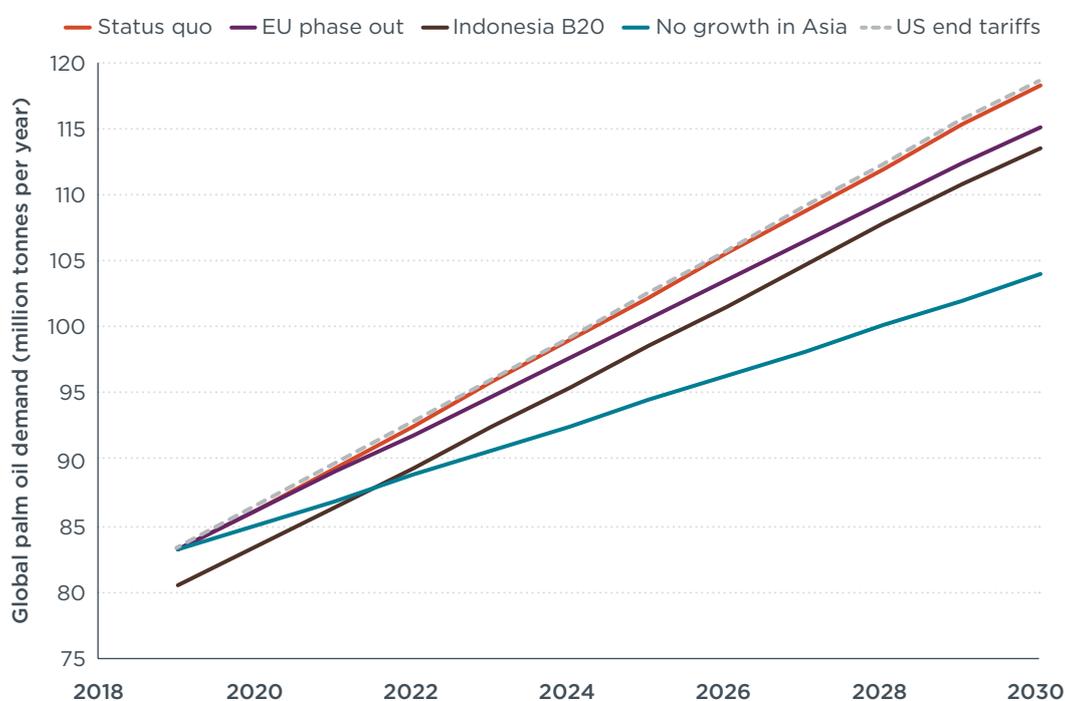


Figure: Projection of global demand for palm oil in various scenarios

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