Strategy and Policy Model for Palm Oil Downstream During the Covid-19 Pandemic

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Abstract. The palm oil industry has an essential and strategic role in the Indonesian economy. In addition to being a foreign exchange earner for Indonesia, it is also a driver of the people’s economy that can absorb many workers. However, the palm oil industry was complicated by the Covid-19 pandemic. The Covid-19 pandemic has also significantly impacted the income of oil palm farmers in Indonesia. Covid-19 also affects the government’s strategy and policy model, especially regarding Indonesia’s downstream of palm oil. This research is qualitative research that is library research. The research data is in the form of library data, especially books, and is equipped with other documents related to the downstream strategy and policy model for palm oil. Then the collected data is selected, presented, and analyzed using content analysis. The study results indicate that the government is continuing to develop palm oil processing businesses. One of the efforts made by the government to develop the palm oil industry is downstream palm oil. The development of the downstream industry (agro-industry) will be very strategic if it is carried out in an integrated and sustainable manner. This is because Indonesia is very rich in producing palm oil. Even during the Covid-19 pandemic, it did not pose a significant challenge; even the export value of palm products continued to increase. In 2020, the amount will reach US$ 22.97 billion, equivalent to IDR 321.5 trillion, growing 13.6% from 2019.

Keywords: Policy Model · Downstream Oil Palm · Covid-19

1 Introduction

Covid-19 has spread to various countries in the world, including Indonesia. At first, the cases in Indonesia seemed uncontrollable, as seen from the speedy addition of cases per day. It was recorded that 28,818 were exposed to the coronavirus as of Thursday, June 4, 2020. From various areas of the Corona spread in Indonesia, with a total of 28,818 who tested positive, as many as 8,892 people managed to recover, while the number of patients who died was 1,721 [1]. Many countries have issued lockdown policies, and social restrictions called lockdowns to suppress the fast-spreading Covid-19 pandemic [2].

Indonesia is also making efforts like other countries, but with all considerations, the government does not implement a lockdown policy. Instead, Indonesia implemented
large-scale social restrictions, which became known as PSBB. Then the government implemented the Emergency PPKM policy starting on July 3, 2021, in all districts/cities in Java and Bali. Emergency PPKM is accompanied by strict health protocols, massive 3T implementation, and acceleration of vaccination programs [3].

From this policy, the government limits people’s activities, ranging from social, economic, political activities, and so on. However, despite different policies, the goal is the same as with other countries, namely breaking the chain of the spread of the coronavirus [4]. Based on these conditions, the domestic economy is declared to contract. Previously, the Indonesian Ministry of Finance stated that the virus caused eight negative impacts, which were first discovered in Wuhan, China. The eight negative impacts include: first, more than 1.5 million employees have left or laid off their jobs and been sent home as of April 11, 2020. Second, Indonesia’s Purchasing Managers Index (PMI) was only 45.3 in March 2020. Third, more than 12,703 flights at 15 airports were canceled from January to February for domestic and international flights.

Fourth, approximately IDR 207 billion was lost in revenue in the air service sector, with around IDR 48 billion contributed by flights from China. Fifth, the number of tourists decreased to 6,800 per day, especially tourists from Bamboo Curtain. Sixth, Indonesia’s hotel, and restaurant revenues experienced a very significant decline. Seventh, Indonesia’s imports from January-March 2020 decreased by 3.7% year to date (YTD). Eighth, inflation in March 2020 was recorded at 2.96% year on year (YoY), contributed by the increase in the price of gold jewelry and several soaring food prices [5].

The Covid-19 pandemic had a serious impact on all aspects [6]. The virus that triggers respiratory disease has a significant impact in the fields of politics, socio-culture, tourism, and the economy is no exception. The Covid-19 pandemic has hardest hit the economic sector since 2019 [7]. More specifically, the Covid-19 pandemic has also impacted the palm oil industry, considering that most of Indonesia’s Crude Palm Oil (CPO) is exported to various countries worldwide [8].

According to Noviana and Ardiani, due to Covid-19, Indonesia’s CPO export volume has decreased drastically. It was noted that in February 2020, Indonesia could only export 84,000 tons of CPO to various countries [9]. This export volume decreased by 77.36% compared to 2019, which was 371,000 tons. Meanwhile, according to Budiyanti, the volume of Indonesian CPO exports to Pakistan and the United States also decreased. In addition, the pattern of domestic CPO consumption also decreased by 3.2% [10].

The palm oil industry has an essential and strategic role in the Indonesian economy. The palm oil processing industry contributes significantly to generating foreign exchange and creates jobs. In the sense that the palm oil industry is a driver of the people’s economy that can absorb a lot of workers [11]. However, in reality, due to the Covid-19 pandemic, the palm oil industry has been hit hard. It also significantly impacts the income of oil palm farmers in Indonesia [9].

In addition, Covid-19 affects the government’s strategy and policy model, especially regarding the downstream of palm oil in Indonesia. Thus, this study aims to analyze strategies and policy models for palm oil downstream during the Covid-19 pandemic. Furthermore, to determine the implementation of palm oil downstream policies during the Covid-19 pandemic. The strategy and policy model for palm oil downstream is...
essential in a study because it involves the public interest—the policy results from a
decision by the owner of legitimacy or power.

The government then implements a policy to carry out the interests and processes of
service to the community, referred to as public policy. Fermana states that public policy
focuses on “the public and their problems” [12]. Meanwhile, according to Nugroho,
public policy results from government activities [13]. Then expressly, public policy can
be understood as government decisions and actions prepared for the public interest.
Based on this view, it is known that public policy is all forms of government decisions
taken to solve problems in the scope and interests of the public.

Every public policy will not succeed without being implemented effectively. This
is because policy implementation is an action taken by the government to achieve the
policy’s objectives. According to Joko Pramono, two steps can be taken to implement
public policies [14]. First, the policy is directly implemented in the form of a program.
Second, it is implemented by formulating derivative policies or derivatives of these
policies. Thus, implementing public policy is a process of activities carried out by various
actors. However, in the end, the implementation will get a result that follows the policy’s
goals or objectives.

2 Research Method

This type of research is library research [15]. In this study, the researcher explores
written materials such as books, articles, journals, newspapers, magazines, and other
sources related to the research topic [16]. The primary data sources in this research
are the book Challenges and Prospects of National Oil Palm Downstream: Analysis of
Industrial Development by the Ministry of Industry Team and the book Development of
Labor-Intensive Technopolitan Areas during the Covid-19 Pandemic.

Meanwhile, secondary data is taken from other literature relevant to the strategy and
policy model for palm oil downstream. The data collection technique used is documen-
tation, namely by collecting data relevant to the strategy and policy model for palm
oil downstream during the Covid-19 period. After all the data has been collected, then
the data is presented in a descriptive-analytical manner. With this analysis technique,
the researcher describes the data clearly and analyzes it, then draws an interpretive
conclusion [17].

3 Result and Discussion

3.1 Palm Oil Industry in Indonesia

The palm oil industry in Indonesia has continued to experience significant development
in the last 20 years. This development is evident from the increase in palm oil production
and exports. The development of the palm oil industry is also marked by the expansion of
oil palm plantation areas [18]. As a result, world market demand continues to grow and
increase, encouraging smallholders and companies to maximize oil palm productivity.
In Indonesia, the management of oil palm plantations is divided into three types, namely
People’s Plantations (PP), Large State-Owned Plantations (LSP), and Large Private
Plantations (LPP).
According to 2018 data, Indonesia’s oil palm plantations cover an area of 14,326,350 hectares which are cultivated by Large Private Plantations (LPP) covering an area of 7,892,706 hectares, People’s Plantations (PP) covering an area of 5,818,888 hectares, and Large State-Owned Plantations (LSP) covering an area of 614,756 hectares [19]. The majority of oil palm land area, divided into three ownerships, is spread across nine provinces, which dominate 87.46% of Indonesia’s total palm oil production. The nine provinces is Riau, Central Kalimantan (Kalimantan Tengah), West Sumatra (Sumatra Barat), South Sumatra (Sumatra Selatan), East Kalimantan (Kalimantan Timur), West Kalimantan (Kalimantan Barat), Jambi, South Kalimantan (Kalimantan Selatan) and West Sumatra (Sumatra Barat) (Fig. 1).

Currently, the discourse to develop the palm oil processing business continues to be carried out to reduce exports of crude palm oil, whose selling value is relatively low, by processing refined palm oil, which is expected to have a high selling price. In addition, the government has also launched a program to increase the welfare and prosperity of the nation that comes from palm oil by placing this industry. Palm oil and its by-products will be developed using environmentally friendly technologies to sustain the economy.

One of the efforts made by the government to develop the palm oil industry is downstream palm oil. The downstream discourse that emerged in 2010 was a structural change effort made by the government to transform traditional economic activities as exporters of palm oil products into modern ones by becoming exporters of palm oil derivative products. In facilitating structural change downstream, the government has two roles: state as entrepreneur and state as manager of conflicts [20].

Downstream of the national palm oil industry is an essential part of the long-term development of the Indonesian palm oil industry. Through the downstream palm oil industry, by 2045, Indonesia is expected to be able to change its position from the current world “king” of CPO (crude palm oil) to the “downstream king” through three downstream pathways, namely ole food (ole food complex) [21], oleochemical complex, and biofuel complex. The downstream palm oil is a combination of export promotion and import substitution strategies. This means that downstream, CPO is processed into higher value-added products for export purposes and to substitute imported goods, such as diesel fuel, after premium, plastic, lubricants, and so on [22].
Thus, the economic benefits of downstream and even the palm oil industry show how much foreign exchange is generated from exports and some foreign exchange that can be saved due to import substitution. The gateway to oil downstream is the refinery industry, namely the industry that processes CPO (crude palm oil) and CPKO (crude palm kernel oil) into intermediate products, namely olein, stearin, and PFAD (palm fatty acid distillate). The intermediate products produced from this refinery industry can be further processed to obtain more downstream palm oil products.

In general, the downstream palm oil currently taking place in Indonesia can be grouped into three downstream pathways: First, Oleofood Complex Downstream [23]. The downstream oleofood or oleo food complex is an industry that processes refinery industry products to produce intermediate oleofood products to oleo food products. For example, Indonesia produces cooking oil, margarine, vitamin A, vitamin E, shortening, ice cream, creamer, cocoa butter/specialty fat, and more.

Second, Oleochemical Downstream. Downstream or oleochemical complex route industries use refinery products to manufacture intermediate goods from basic oleochemicals to completed products, such as biosurfactants (detergents, soaps, shampoos), lubricants, and biomaterials (e.g., bioplastics). Third, Biofuel Downstream. Biofuel downstream pathway (biofuel complex), namely industries that process refinery industry products to produce intermediate products from biofuels to finished biofuel products, such as biodiesel, biogas, bio premium, and bioavtur (Fig. 2).

Downstream palm oil through these three channels is an essential part of the industrialization strategy in Indonesia, namely a combination of export promotion (EO) and import substitution (SI) strategies. From the EO strategy, palm oil downstream is carried out in stages, namely the first phase (EO1) and continued with the advanced phase (EO2). The downstream phase of EO1 is expected to transform exports of crude palm oil products into semi-finished downstream products, such as RBD (refined, bleached, and deodorized) olein, RBD stearin, PFAD, fatty acid, fatty alcohol, glycerol, and so on.

As for the downstream phase of EO2, it is expected that the products exported are finished products, such as packaged ole food products (cooking oil, margarine), finished oleochemicals (soap, detergent, shampoo, etc.), and biofuels (biodiesel, biogas, bioethanol, and so on). The export promotion strategy through downstream palm oil is also implemented in parallel with the import substitution strategy which can be grouped into two phases, namely the first phase (SI1), which produces intermediate products that Indonesia still imports. Meanwhile, the second phase (SI2) produces finished products to

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**Fig. 2.** Labor-intensive development of downstream oil palm.
replace the imported finished products. This second import substitution phase includes replacing diesel fuel with biodiesel (mandatory biodiesel), replacing petro-oil with bio-lubricant [24].

The development of the downstream industry (agro-industry) will be very strategic if it is carried out in an integrated and sustainable manner. Integrated means that there are linkages between upstream and downstream sector businesses synergistically and productively and between regions, sectors, and even commodities. Sustainable, as defined by the World Commission on Environment and Development (WCED) in 1987 is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The Agricultural Research Service (USDA) defines sustainable agriculture as agriculture that in the future can be competitive, productive, profitable, conserve the natural resource base, protects the environment, improves health and security, and safety in the long term.

However, in the future, the government must carry out proper downstream so that the case of scarcity of cooking oil that occurred some time ago does not happen again. The dilemma faced by the state, on the one hand, is that the state wants to develop the palm oil industry, but on the other hand, it is plagued by issues such as the environment, forest land conversion, and the issue of impartiality to the community.

Therefore, in implementing this downstream policy, the government should coordinate with various parties, such as ministries, farmers, local governments, and local communities. From a public policy perspective, coordination with these various parties is deliberative. According to Fitriana, deliberative policies are formulated through an intensive discussion process between the government and citizens. So, the palm oil downstream policy implemented by the government gets support from the public because it has gone through discussions or deliberation with various parties [25].

3.2 Impact of the Covid-19 Pandemic on the Oil Palm Plantation Industry

The potential of CPO in Indonesia is enormous for oil products, both food and nonfood, and the largest CPO producer is Large Private Plantation (LPP). Why LPP? Besides having the largest land area, LPP plantations have a high average productivity of 3.94 tons/hectare/year. Compare this with People’s Plantation (PP), which has an average productivity of 3.16 tons/hectare/year, and Large State-Owned Plantations (LSP) of 3.60 tons/hectare/year. In 2018 the production of CPO and nucleus in Indonesia was 48.68 million tons. The most significant contribution came from LPP land at 29.39 million tons, PP at 16.80 million tons, and LSP at 2.49 million tons [19].

These data show the strength of production and the size of private ownership in the Indonesian palm oil industry. So it is not surprising that in 2020 entrepreneurs claim that the Covid-19 pandemic does not pose a significant challenge. Even the export value of palm products continues to increase. In 2020, the amount will reach US$ 22.97 billion, equivalent to IDR 321.5 trillion, growing 13.6% from 2019 and above the average export value of US$ 21.4 billion per year. At the beginning of the pandemic, the price dropped to USD 505 on May 11, 2020. The price increase occurred on September 14, 2020, amounting to USD 765. Meanwhile, on February 8, 2021, the price became USD 1,030 [26].
However, the most significant impact of the Covid-19 pandemic is experienced by oil palm farmers. From this, it can be concluded that the aspect most affected by the Covid-19 pandemic is the palm and non-palm oil sector’s income portfolio. Non-palm oil income is also generally used by smallholders for garden maintenance costs. If non-palm income decreases, where the total cost of palm oil production remains, then the aggregate income of smallholders will decrease. Income from non-palm oil that should be allocated for other household expenses and savings cannot be interpreted as a success if used for palm oil.

On the other hand, smallholders pay more to ensure that palm oil is still “fed” by giving up other sources of income to be dredged. This becomes difficult when income from palm oil also declines due to oil palm’s low productivity (fruit tracks) [27]. The low intensity of garden maintenance is a consequence of declining incomes in the oil palm and non-palm sectors and the challenges of high household living costs during the pandemic.

In addition, this is a problem from the low productivity of plantations as a source of income from palm oil and the loss of additional jobs as a source of income for the non-oil sector. These three aspects occurred under the influence of the pandemic period and are part of the classic problems of larger oil palm smallholders, such as institutional issues, TBS market chains, and price disparities, as well as government policies that are not in favor of farmers [28].

3.3 The GOVERNment’s Efforts for the Palm Oil Industry to Survive During the Covid-19 Pandemic

The following are the government’s efforts so that the palm oil industry survives during the pandemic:

- Government policy allows the operation of the oil palm plantation sector to supply food and energy to survive amidst the Covid-19 pandemic.
- The government is currently developing a policy on domestic demand for palm oil products, namely the development of B30 as an alternative fuel to reduce dependence on fossil-based fuels. The government’s efforts to reduce carbon emissions and implement low-carbon development.

Meanwhile, in the Circular Letter of the Minister of Manpower Number M/3/HK.04/III/2020 concerning Protection of Workers/Labourers and Business Continuity in the Context of Prevention and Control of Covid-19:

1. Prevention of the spread and handling of cases related to Covid-19 in the work environment.
2. Wage protection for workers/laborers related to the Covid-19 pandemic, namely:
   - Based on a doctor’s statement, workers/laborers categorized as People Under Monitoring (ODP) related to Covid-19 cannot come to work for a maximum of 14 days, or according to the Ministry of Health, their wages are paid in full.
   - According to a doctor’s statement, workers/laborers categorized as suspected cases of Covid-19 and quarantined/isolated are paid their wages in total during the quarantine/isolation period.
For workers/laborers who do not work because of Covid-19 illness and are proven by a doctor’s statement, their wages are paid according to statutory regulations.

For companies that limit their business activities due to government policies in their respective regions for the prevention and control of COVID-19, causing some or all of their workers/laborers to be absent from work, taking into account business continuity, changes in the amount and method of payment of wages for workers/labor carried out following the agreement between the employer and the worker/labor [29].

4 Conclusions and Suggestions

The palm oil industry in Indonesia has continued to experience significant development in the last 20 years. This development is evident from the increase in palm oil production and exports. Currently, the discourse to develop the palm oil processing business continues to be carried out to reduce exports of crude palm oil, whose selling value is relatively low, by processing refined palm oil, which is expected to have a high selling price.

One of the efforts made by the government to develop the palm oil industry is downstream palm oil. The downstream discourse that emerged in 2010 was a structural change effort made by the government to transform traditional economic activities as exporters of palm oil products into modern ones by becoming exporters of palm oil derivative products.

The development of the downstream industry (agro-industry) will be very strategic if it is carried out in an integrated and sustainable manner. Integrated means that there are linkages between upstream and downstream sector businesses synergistically and productively and between regions, sectors, and even commodities. This is because Indonesia is very rich in producing palm oil. For example, in 2018, the production of CPO and nucleus in Indonesia was 48.68 million tons. This data shows the strength of production and the size of private ownership in the Indonesian palm oil industry.

So it is not surprising that in 2020 entrepreneurs claim that the Covid-19 pandemic does not pose a significant challenge. Even the export value of palm products continues to increase. In 2020, the amount will reach US$ 22.97 billion, equivalent to IDR 321.5 trillion, growing 13.6% from 2019 and above the average export value of US$ 21.4 billion per year. However, the most significant impact of the Covid-19 pandemic is experienced by oil palm farmers.

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References


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