

Decreasing Demand Of Indonesia Palm Oil By India And Strategy Of Indonesia Government to Maintain Palm Oil Market In India

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ARTICLE INFORMATION

SUBMISSION TRACK

Received : 03, March, 2019

Final Revision : 16, May, 2019

Available Online: 30, May, 2019

KEYWORD

India, Export Palm Oil, Competitive Advantage, Development State, Crude Palm Oil (CPO) Supporting Fund (CSF), Indonesian Trade Promotion Center (ITPC) Chennai, Palm Oil Industry Cluster (POIC)

KATA KUNCI

India, Ekspor Minyak Sawit, Keunggulan Kompetitif, Development State, Crude Palm Oil (CPO) Supporting Fund (CSF), Indonesian Trade Promotion Center (ITPC) Chennai, Klaster Industri Kelapa Sawit (KIKS)

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ABSTRACT

This study aims to find out the factors that led to a decline in the market share of Indonesian palm oil in India and to know the Indonesian government's strategy to maintain the palm oil market in India. The method used is descriptive analysis using the theory of competitive advantage diamond models from Michael Porter and Development state. The scope of the research was between 2010 and 2015. The results showed that the cause of the decline in the market share of Indonesian palm oil in India was due to the application of Higher Crude Palm Oil (CPO) from its derivative products in Indonesia, increasing demand for Malaysian palm oil by India and the development of the palm oil industry in India. The strategy carried out by the Indonesian government is implementing the Crude Palm Oil (CPO) Supporting Fund (CSF), Chennai Indonesian Trade Promotion Center (ITPC) and Palm Oil Industry Cluster (OPIC).

ABSTRAK

Penelitian ini bertujuan untuk mengetahui faktor-faktor yang menyebabkan penurunan pangsa pasar minyak sawit Indonesia di India dan mengetahui strategi pemerintah Indonesia mempertahankan pasar minyak sawit di India. Metode yang digunakan adalah deskriptif analisis dengan menggunakan teori keunggulan kompetitif model berlian dari Michael Porter dan Development state. Ruang lingkup penelitian antara tahun 2010 hingga 2015. Hasil penelitian menunjukkan bahwa penyebab penurunan pangsa pasar minyak sawit Indonesia di India karena penerapan Bea Keluar (BK) Crude Palm Oil (CPO) yang lebih tinggi dari produk turunannya di Indonesia, Peningkatan permintaan minyak sawit Malaysia oleh India dan pengembangan industri kelapa sawit di India.. Strategi yang dilakukan pemerintah Indonesia yaitu menerapkan Crude Palm Oil (CPO) Supporting Fund (CSF), Indonesian Trade Promotion Center (ITPC) Chennai dan Klaster Industri Kelapa Sawit (KIKS)

Introduction

India is the main destination of Indonesia palm oil export with total volume in 2010 attain 5,5 million ton from 17,58 million ton of total export with the value US \$ 4,57 billion.¹ Palm oil is one of the main export commodity of Indonesia, where it is the biggest palm oil exporter by producing 27,31 million ton in 2010 and possesses planting areas approximately 8,5 million Ha. Indonesia is the biggest palm oil exporter for India by dominating 83% of palm oil market in 2010. However, there was unfortunately a decrease of Indonesia palm oil export in 2014 to 60%.

Table 1, Palm Oil Exporting Countries to India by Percent

Source: Comtrade. processed

Country	2010	2011	2012	2013	2014
Indonesia	83%	73%	67%	71%	60%
Malaysia	16%	22%	31%	26%	38%
Papua Nugini	0%	1%	1%	0%	0%
Thailand	0%	1%	0%	2%	1%
lain-lain	1%	4%	2%	0%	1%
Total	100%	100%	100%	100%	100%

The implication of this decline in market share is the huge potential to increase the volume of palm oil exports to India. In addition, the potential tax generated from this export will be lost and in general it will disrupt the development of the Indonesian palm oil industry which has been developing. So that the Indonesian government has an interest in maintaining its market share of

¹ Tim Penyusun Badan Pusat Statistik (BPS) Indonesia, *Statistik Kelapa Sawit Indonesia 2014*, Jakarta, 2015.

palm oil in India. Based on the background above, it will be examined. How does the Indonesian Government's strategy maintain the palm oil market in India?

Based on literature review, there are a number of the previous researches regarding with this topic. Ira Kristina Br. Lumbantobing in their research entitled "*Identifikasi Faktor Sukses Kunci Strategi Memasuki Pasar India Bagi Produk Minyak Goreng Kelapa Sawit dari Indonesia Dengan Analisis PEST (Politik, Ekonomi, Sosial dan Teknologi)*"² revealed that to undertake the strategy to enter India market, Indonesia palm oil producer have utterly the potency to enter where the market is more open than before. The producers entail to build the partnership (networking) with local producers. Hence, supporting factors can hopefully be intensive, such as communication line, distribution line, and marketing resources to bolster the strategy to enter India market.

In addition, an article written by bambang Drajat and hamzah Bustomi entitles "*Alternatif Strategi Pengembangan Ekspor Minyak Sawit Indonesia*"³ by using Analytical Hierarchy Process (AHP) method. It states that palm oil development strategy concerning with competitiveness comprise: resources optimalization, institution improvement, and policy implementation. Herein, the actors involved

² Ira Kristina Br. Lumbantobing, *Identifikasi Faktor Sukses Kunci Strategi Memasuki Pasar India Bagi Produk Minyak Goreng Kelapa Sawit dari Indonesia Dengan Analisis PEST (Politik, Ekonomi, Sosial dan Teknologi)*, Fakultas Ekonomika dan Bisnis (UGM), Yogyakarta, 2014.

³ Bambang Drajat dan Hamzah Bustomi, *Alternatif Strategi Pengembangan Ekspor Minyak Sawit Indonesia*, Jurnal Manajemen & Agribisnis, vol 6 No. 1 Maret 2009.

consist of government, State Owned-Enterprises, private and cooperative enterprise/Small and Medium Enterprises.

Moreover, paper written by The Ministry of Trade entitled *Analisis Kebijakan Bea Keluar (BK) CPO dan produk turunanannya*⁴ scrutinize that the impact of The Regulation from Misnitry of Finance No. 67/PMK.011/2010 about the exit tax for Crude Palm Oil (CPO) and its related products is aimed to manage excessive CPO export which is intrusive to domestic oil needs. Furthermore, it is aimed to boost Indonesia palm oil industry. In contrast, this policy decreases Indonesia export value to main importer countries, such as India, Netherland, Germany, Italy, and Singapore.

Andi Alatas asserted in his research "*Trend Produksi dan Eksport Minyak Sawit (CPO) Indonesia*"⁵ that palm oil production trend averagely experience the rise. Furthermore, production value trend, export volume trend, and export value trend of Indonesia palm oil also experience the increase from year to year. The factors generally influence export to India are palm oil international price, Rupiah exchange rate, percapita income, population, and substitution price.

Tuti Ernawati and Yeni Septia in journal entitles *Kinerja Ekspor Minyak Kelapa Sawit Indonesia*⁶ stated that *Revealed Comparative Advantage* (RCA) of CPO export and Indonesia PKO is lower than Malaysia and Thailand, but similarly with Colombia. Analysis of Constant Market

Share (CMS) of Indonesian CPO and PKO tend to decrease comparing with the growth of global export.

A number of literatures above were analyzed using one or several similar variables either economy or politic. Therefore, in this research the author will examine the challenges and obstacles of this issue by using the international political economy paradigm with focusing on several dissimilar variables yet still substantial correlated. Hence, the government as economic driving force has substantially roles in boosting the oil industry in Indonesia, but keep enforcing the partnership with private sector. The competitiveness improvement is the pivotal key of Indonesian palm oil industry to maintain its market in India.

Research Method

The research method uses a type of descriptive analysis research that is research that aims to make a description of a situation or event systematically and factually. Data processing methods used are qualitative methods, namely research that seeks to understand the meaning of events that occur and their relation to certain situations (phenomenal approach). The commodity data used is palm oil data including 4 pieces of the Harmony System (HS) code, namely:

1. HS 1511 10000 (Crude Palm Oil)
2. HS 1511 90000 (Other Palm Oil)
3. HS 1513 21000 (Crude Oil of Palm Kernel)
4. HS 151329000 (Other Palm Kernel Oil)

However, some data only uses HS 1511 10000, namely CPO because of the limitations of the author in obtaining other HS data. In order to collect the required data, which has to do with this research, the authors use library techniques (bibliography research), namely in the form of secondary data arranged in the form of books, journals, related documents, websites and newspapers.

4. *Analisis Kebijakan Bea Keluar (BK) CPO dan produk turunanannya*. Diterbitkan oleh Badan Pengkajian dan Pengembangan Kebijakan Perdagangan, Pusat Kebijakan Perdagangan Luar Negeri, Kementerian Perdagangan, Jakarta, 2013

⁵ Andi Alatas, *Trend Produksi Dan Eksport Minyak Sawit (CPO) Indonesia*, tesis pascasarjana studi manajemen agribisnis UGM, Yogyakarta, 2015.

⁶ Tuti Ernawati dan Yeni Septia, "Kinerja Ekspor Minyak Kelapa Sawit Indonesia", dalam Buletin Ilmiah Litbang Perdagangan, Vol 7. No 2, Desember 2013.

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The author seeks to limit the time period and the research area to limit the problem only to the trade in palm oil between Indonesia and India. While in limiting the duration of the study, researchers tried to limit the time between 2010 and 2015. Given the availability of data within the range of that year, some data outside of that time period was used while supporting the research. There are 2 theories used to explain this phenomenon, namely the Diamond Model Excellence Theory from Michael Porter and Development State.

1. Competitive Advantage Theory of Berlian Model from Michael Porter

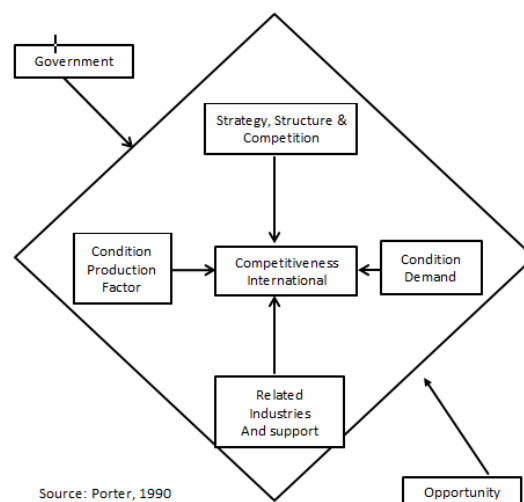
In simple terms, competitiveness can be used to determine the position of a commodity in a competitive market. According to Martin et al, one indicator of competitiveness is market share. If the market share of a commodity increases, it can generally be done using a market share and market growth approach. Competitiveness is the ability of a producer to produce a commodity at a fairly low cost so that production activities are profitable at the price level that occurs in the international market. . The approach that can be used to measure the competitiveness of a commodity is the level of profit generated and the efficiency of the exploitation of the commodity. The level of profit can be seen from private benefits and social benefits, while the efficiency of commodity exploitation can be seen from the level of comparative advantage and competitive advantage.

The theory used in this study is the theory of competitive advantage with international competitiveness diamond models proposed by Michael Porter in his book *The Competitive Advantage of Nation* (1990) starting from the explanation of aspects of national competitive advantage to the formation and development of competitive industries. Competitiveness is the activity of the ability of a commodity to

enter the international market and the ability to survive in the market, which means that if a product has competitiveness it means that the product is in great demand by the public.

According to the porter there is no correlation between the two factors of production (abundant natural resources and cheap resources) owned by a country, which is utilized as a competitive advantage in international trade. Many countries in the world have huge amounts of natural resources that are proportional to the width of their country, but are underdeveloped in the competitiveness of international trade. Likewise, the level of wages that are relatively cheap compared to other countries, precisely correlates closely with the low motivation of hard work and achievement. National prosperity was created, not inherited. Here is a picture of the porter's international competitiveness diamond model:

Chart 1. Porter's International Competitiveness Diamond Model



Results and Discussion

Decreasing Market Share of Indonesian Palm Oil in India

The cause of the decline in the market share of Indonesian palm oil in India is complex, ranging from fluctuations in world palm oil prices, prices of palm oil

substitute goods and other factors. But in this study discuss three factors that the author considers to be a substance. These factors include:

A. Application of Export Duty (ED) for CPO Exports and Derivative Products in Indonesia

ED policy for CPO and its derivatives has been adjusted to the downstream spirit. The first time is through the Minister of Finance Regulation No. 128 / PMK.011 / 2011 concerning changes to the Regulation of the Minister of Finance No. 67 / PMK.011 / 2010 concerning Determination of Exported Goods subject to Export Levy and Customs Tariffs. The regulation was promulgated on August 15, 2011 and entered into force 30 days after the regulation was promulgated (September 15, 2011). At present the applicable regulation concerning BK is the Minister of Finance Regulation No. 75 / PMK.011 / 2012 concerning the stipulation of Exported Goods subject to Export Levy and Customs Tariff. In this regulation there is no change in the amount of Export Levy for CPO and its derivative products.

Based on the Minister of Finance Finance Regulation namely PMK No.75 / KMK 11/2012 Export Levy is not a tax and is more a definition of state levies. Determination of the amount of levies is determined by the Minister of Finance at the proposal of the Minister of Trade, with consideration:

1. To guarantee the fulfillment of domestic needs for goods or commodities because of the nature, number and type are goods needed by the community in their daily lives. This scarcity of goods can disrupt national stability and economic distortions. For example domestic demand for cooking oil, when the price of cooking oil (CPO) increases in the international market as a result of rising demand.

2. Protect the preservation of natural resources, for goods that are of limited nature and if exported will cause environmental damage and natural sustainability. For example round wood or wood that has been processed into sawn timber.

3. Goods limited by their exports, because their own national needs need to be fulfilled. For example natural gas or other mining products

4. Anticipate a fairly drastic price increase from certain export commodities on the international market and maintain the stability of prices of certain commodities in the country.

The implementation of Export Levy has resulted in a decline in the market share of Indonesian palm oil in India. From 2007 to 2011 the volume of Indonesian palm oil exports to India continued to increase. However, the Export Duty policy at the end of 2011 reduced the export volume of Indonesian palm oil by about 7%, while in the same year Malaysian CPO exports to India experienced a 106% increase. This is because the selling price of Indonesian CPO is more expensive than Malaysia.

B. Increasing Indian Demand for Malaysian Palm Oil

□ Export Duty (ED) Malaysian CPO is lower than Indonesia

The structure of the Indonesian and Malaysian BK CPO is not much different from the threshold side (the lower limit) and the level of the BK imposition price level. The threshold of CPO prices for imposition of BK on the tariff structure of the Malaysian and Indonesian BK is not much different. Up to the price of RM 2,250 / ton (USD 745.88 / ton) is not subject to BK (0%) on the structure of the Malaysian BK. Meanwhile, BK is also not charged up to the price of USD 750 / ton in the structure of the Indonesian BK. The BK imposition interval in Malaysia is RM 150 / ton (USD 49.4 / ton), while in Indonesia it is USD 50 / ton.

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However, the two structures are far different in the BK tariff rates at each level of CPO prices

Table 2, Comparison of Malaysian and Indonesian ED CPOs

ED CPO Malaysia			ED CPO Indonesia	
CPO Market Price (FOB RM/Ton)	CPO Market Price (FOB USD/Ton)	Amount ED (%)	CPO Market Price (FOB USD/Ton)	Amount ED (%)
< 2,250	< 745,88	0	≤ 750	0
2,250 – 2,400	745,88 – 795,6	4,5	>750 – 800	7,5
2,401 – 2,550	795,93 – 845,33	5	>800 – 850	9
2,551 – 2,700	845,66 – 895,05	5,5	>850 – 900	10,5
2,701 – 2,850	895,38 – 944,5	6	>900 – 950	12,5
2,851 – 3,000	945,11 – 994,5	6,5	>950 – 1.000	13,5
3,001 – 3,150	944,83 – 1.044,23	7	>1.000 – 1.050	15
3,151 – 3,300	1.044,56 – 1.093,95	7,5	>1.050 – 1.100	16,5
3,301 – 3,450	1.094,28 – 1.143,68	8	>1.100 – 1.150	18
> 3,450	> 1.143,68	8,5	>1.150 – 1.200	19,5
			>1.200 – 1.250	21
			>USD 1.250	22,5

Source: Malaysia Palm Oil Board (MPOB) dan PMK No 75 years 2012

Since January 1, 2013, the Malaysian Government has made changes to the BK imposition policy for CPO in its country. Quota is abolished and if export of CPO is imposed by BK according to the price in the table above. What deserves attention is that the policy of the palm oil downstream industry in Malaysia remains the same as before, namely the downstream product BK of 0%. Therefore, basically the Malaysian Government has also imposed a downstream policy on the palm oil industry and its derivatives as is being developed by the

Indonesian Government which came into force in September 2011.

Portions Malaysian CPO exports to India have continued to increase since 2008, but a dramatic increase from 2011 to 2012 has almost doubled, from 19% to 34%. While the portion of Indonesia's CPO export portion continued to decline in 2008, which in 2007 amounted to 87% to 86% in 2008. There was a drastic decline in 2011 to 2012 of 13%. If you see this trend, in the not too distant future Malaysia can overtake Indonesia as the largest CPO exporter to India

✓ *Malaysia-India Comprehensive Economic Cooperation (MICECA)*

Another factor supporting the increase in Malaysian palm oil exports is the existence of economic cooperation, especially in trade and investment between Malaysia and India, namely Malaysia-India Comprehensive Economic Cooperation (MICECA) which was agreed on September 24, 2010 in Kuala Lumpur, Malaysia and entered into force on July 1 2011 Under MICECA, Malaysia and India will further reduce or eliminate tariffs on their respective industrial and agricultural products.

In the palm oil sector, which is Malaysia's main export to India, where the export value in 2010 was US \$ 19.92 billion. India's commitment in reducing palm oil tariffs is quite large. Tariff reduction occurred in the enactment of this collaboration in 2011 and continues to fall every year down to 2019. An example is the decline in CPO tariffs which initially before the cooperation at 80% rate, when MICECA applied to 72% in 2011 and 2012 fell to 68% and continues to fall every year 4% until 2019 to 37.5%

While from the Malaysian side it also reduced tariffs. In general, the rates imposed by Malaysia are already low, but with this collaboration the tariff is 0%. However, for RPO and Margarine products it

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dropped to 0% in 2013 even though at the beginning it was applied at a rate of 3% and dropped to 2% in 2012. The bilateral cooperation between Malaysia and India further facilitated and facilitated trade in palm oil between countries. This is seen as a significant increase in Malaysian palm oil

exports to India in 2012. A similar thing is expected to be done between Indonesia and India, given that both countries have good diplomatic and economic relations, so that they can be mutually beneficial between countries.

Table 3, Commitment to Palm Oil Entry Rates by India in MICECA

Products	Base Rate (%)	MICECA Preferential Tariffs (%)									
		EIF**	Implementasi								
			2012	2013	2014	2015	2016	2017	2018	2019	
CPO	80	72	68	64	60	56	52	48	44	37,5	
RPO	90	82	78	74	70	66	62	58	54	45	
CPKO	100	94	88	82	76	70	64	58	52	45	
PKO and its fractions	100	94	88	82	76	70	64	58	52	45	
Processed PKO	100	94	88	82	76	70	64	58	52	45	
Margarine (Vegetable origin)	80	76	72	68	64	60	56	52	48	45	

*300% Bound Rate Under WTO is still applicable to other countries

** EIF = Entry Into Force of this Agreement

CPO = Crude Palm Oil

RPO = Refined Palm Oil

CPKO = Crude Palm Kernel Oil

PKO = Palm Kernel Oil

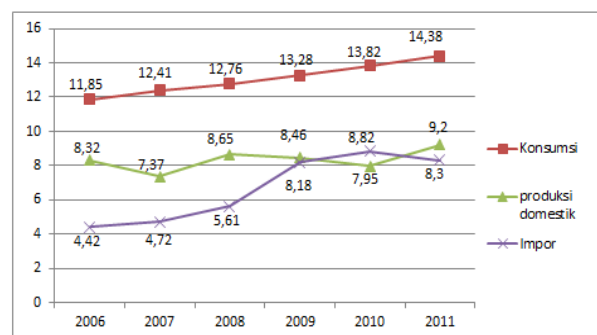
Sourcer: Malaysia-India Comprehensive Economic Cooperation (MICECA)

Graph 1, Vegetable Oil in India 2006-2011

(million tons)

C. Development of the Indian Palm Oil Industry

The increasing demand for vegetable oils from the Indian community and the inability of Indian domestic producers to fulfill these demands has made the import step the best solution. Consumption is always up while domestic production fluctuates, making imports high, even in 2010, 2012 and 2013 the volume of imports was higher than domestic production. The Indian government is aware that imports are a short-term solution and if it continues it will make India dependent on imports. Large and long-term development needs to be done to develop the vegetable oil industry to meet domestic demand



Source: Ministry of Agriculture of India & MOP

The Indian government introduced oil palm to its people during the period 1985-1986, with plantation ownership under the Technology Mission on Oil seeds (TMO)

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program. Then continued with the development of large-scale oil palm plantations under the Oil Palm Development Program (OPDP) in 1991-1992 where this activity was under the Technology Mission on Oilseed and Pulses (TMOP) program of the Ministry of Agriculture and Work, Ministry of Agriculture of India during the VIII annual plan (1992-1997) with a target of 80 thousand ha. Its development areas are in Andhra Pradesh, Karnataka, Tamil Nadu, Orissa, Gujarat and Goa provinces.

The results of the OPDP program resulted in 8,585 hectares, then in the following years continued expansion of the oil palm plantation area to 173 thousand hectares in 2011. The expansion period of this plantation was divided into the five-year plan of the Indian government (see Table 12). The potential for developing oil palm plantations in India according to the Indian Ministry of Agriculture is around 1 million ha.

Table 4, Expansion Period of Palm Oil Gardens

No	Period	Addition of Area (ha)
1	XII (1991-1992)	8,585
2	IX (2001-2002)	62,730
3	X (2002-2003 to 2006-2007)	47,070
4	XI (2007-2008)	81,270
5	Total pada 2011	199,655

Source: Ministry of Agriculture of India

The latest policy from the Indian government to boost domestic palm oil production is the National Mission Oil Seeds & Oil Palm (NMOOP). It is part of India's 12th five-year plan for 2012-2017 where the mission has several objectives, namely:

1. Increase Seed Replacement Ratio (SRR) / Seed replacement ratio, focusing on replacing varieties
2. Expand the irrigation cover on oilseeds from 26% to 36%

3. Substitution of land areas from grain gardens including rice and potatoes to be oilseeds
4. Expansion of oil palm plantations and TBOs from water / swamp areas and unused land
5. Improve the quality and productivity of Oilseeds, Palm Oil and TBOs

The scheme included in NMOOP is

1. Integrated Scheme on Oilseeds, Pulses, Palm Oil and Maize (ISOPOM) for Oilseeds and palm oil commodities
 2. Oil Palm Area Expansion Program (OPEA) for palm oil commodities
 3. Integrated Development of TBOs for commodity Tree Borne Oilseeds
1. The target of this NMOOP generally wants to increase land and vegetable oil production. NMOOP is divided into 3 Mini Mision (MM) where each mission focuses on the types of vegetable oil producing plants, namely:

- a) MM-I is Oilseeds. Includes Soybean, Rapeseed & Mustard, Safflower, Sesame, Linseed, Groundnut, Sunflower, Niger and Castor with Production targets from 28.93 to 35.51 million tons, Productivity from 1,081 to 1,328 Kg / ha and Oil production from 6.8 to 8.5 million tons
- b) MM-II, namely Palm Oil. Covering oil palm has a garden target of 200 thousand to 330 thousand ha, FFB from 0.7 million to 37.9 million tons and oil production from 100 to 700 tons
- c) MM-III, namely (Tree Borne Oilseeds) TBOs. Including Jatropha, Neem, Mahua, Tung, Jojoba, Olive, Karanja, Simarouba, Kokum, Wild Apricot and Cheura having a production target of 0.8 to 1.4 million tons and oil production from 120 to 300 tons

NMOOP is an incentive given by the government through the Ministry of Agriculture. The cost source of NMOOP comes from 75% of the central government

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and 25% of the provincial government. The amount of incentives is given based on proposals submitted by each province. For oil palm, the incentives include

D. Implications for Decreasing Indonesian Palm Oil Market Share in India

The ups and downs of exporters in international trade are common. In general, the volume of Indonesian palm oil exports to India is increasing, but if we are keen to see, the highest portion of Indonesia is in 2007 with 87% of the total imports of Indian palm oil. Then in 2008 the portion began to decline until 2014 to 60%. The missing portion moved to Malaysia, which in 2007 controlled 10%, to 38% in 2014. While Indonesian exporters were the first to feel this impact. At least 12 companies export CPO and PKO to India. Most of these companies are domiciled in Sumatra. The need for the Indonesian Government to maintain the market share of palm oil in India includes:

1. There is great potential to increase the volume of palm oil exports to India through the palm oil exporter company above. The increase in demand for Indian palm oil is greater than the percentage increase in exports of Indonesian palm oil. The difference from this percentage was taken by Malaysia.
2. The potential tax generated from this export will be lost
3. In general, it will disturb the development of the Indonesian palm oil industry which has been developing.

The Indonesian Government Strategy to Maintain the Palm Oil Market in India

The common thread of the cause decline market share of Indonesia palm oil in India is competitiveness. Malaysia has a higher competitiveness than Indonesia so normal that India increase their purchases to Malaysia. India saw the condition of

Indonesia palm oil industry which incidentally is largest exporter in the world today could be pusued, at least can be applied in India. Needed to increase competitiveness of Indonesia palm oil products to maintain market share of Indonesia palm oil in India.

Economic cooperation between two countries about new renewable energy⁷ though not as big as palm oil trade. It also shwos the economic cooperation between Indonesia-India like cooperation Malaysia-India not will happen in near future. So that Indonesia government's effot to focus on increasing competitiveness among Research and Development (R&D) of palm oil, promotion and improvement of service and trading facilities palm oil industry. Concrete forms of these efforts include:

A. Crude Palm Oil (CPO) Supporting Fund (CSF)

Crude Palm Oil (CPO) Supporting Fund (CSF) is a levy on export of Crude Palm Oil (CPO) and its derivatives. CSF was established pursuant to Presidential Decree (Decree) No. 61 year 2015 concerning the fund of collection and use of palm Oil on 18 May 2015. The proceeds are not entered into the state budget (APBN). CSF fund managed by The Fund Management Board, which was established by Treasury through The Ministry Finance regulation No.13/PMK.01/2015 dated 11 June 2015. The use of CSF fund to encourage development of sustainable palm oil. The funds collected are used for the benefit as follows:

1. Development of Human Resources (HR) oil palm plantation.

⁷ Indonesia dan India jalin kerja sama energi terbarukan dan kebudayaan dalam <http://www.republika.co.id/berita/nasional/umum/15/11/02/nx6ejs335-indonesiaindia-jalin-kerja-sama-energi-terbarukan-dan-kebudayaan> diakses pada 18 Mei 2016.

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2. Research and Development of oil palm plantation. In 2015 ago has disbursed Rp 62 bilion to support 46 research.
3. Facilities and infrastructure for oil palm plantations. Subsudies replating of oil palm plantations to small farmers through cooperatives amounting to Rp 25 million per hectare.
4. Subsidies Biofuel increased mandatory biodiesel from 10% to 15% applied by the government through B15. Price biofuel biodiesel is more expensive than the price of diesel with difference Rp 1000/liter and to cover difference is taken from contribution CSF⁸. In 2015, no budget from the state budget to subsidize biofuel biodiesel.

B. Indonesia Trade Promotion Center (ITPC) Chennai, India

Indonesia Trade Promotion Center (ITPC) Chennai was established in 2011. The main task of ITPC is promoting exports, facilitating business meeting, market studies, organizing trade fairs remain in ITPC and help Indonesia businesses to follow international trade fairs, trade information service, organizing a trade mission to Indonesia, make regular visit to companies/market and market inteligeni as well as other tasks⁹. The exhibition followed and held ITPC Chennai is:

1. Aahar International Food & Hospitality 31 th, 15-19 March 2016¹⁰

⁸ Rafika Sari, *Rencana kebijakan Crude Palm Oil Supporting Fund*, Info Singkat Ekonomi dan Kebijakan Publik Vol.VII, 07/I/P3DI/April/2015, Jakarta, 2015.

⁹ ITPC dalam http://eximjatim.com/index.php?option=com_ckforms&view=ckformsdata&layout=data&id=f3&controller=ckdata&Itemid=64 diakses pada 25 April 2016.

¹⁰ 31 st Aahar International Food & Hospitality Fair 2016 dalam <http://itpcchennai.com/member/31st->

Is one of the largest exhibitions in south asia with an area of 45 thousand square meters. Foliowed by 872 participants from 22 countries with an averange of 44.650 visitorss. Attended by foreign business delegation from United States, Europe Union, Singapore, Bangladesh, Nepal and others. Then the representatives of foreign companies fom australia, Afganistan, Canada, Denmar, Germany, Japan, South Korea, Poland, Saudi Arabia, Turkey, and others. With 98% satisfaction rate of participants to participate in next exhibition.

2. Remark ndonesia EXPO 2015¹¹

A trade show created by the Indonesia embassy in India and ITPC Chennai to promote various products Indonesia to India. The exhibition was held in Chennai on 19-21 June 2015.

C. Palm Oil Industrial Cluster (POIC)

Palm oil industrial is a concrete action of The Masterpalm for Acceleration and Expansion of Indonesia Economic Development (MP3EI). Vision of MP3E1 is to make Indonesia into developed contries and including ten major countries in the world by 2025. The main contribution to the improvement of industrial clusters is not a purely economic scale, but rather on creation of solutions to externalities factors, such a ecology, infrastructure and other factor external that are usually not handle properly in developing countries due to failure of coordination. Based on experience of industrial clusters in developed countries, increased competitiveness can be done through locally based organizations effeciency of quality, design, speed of innovation and speed of response. According

aahar-international-food-hospitality-fair-2016-2/ diakses pada 18 Mei 2016.

¹¹ Remarkable Indonesia EXPO 2015 dalam <http://itpcchennai.com/member/remarkable-indonesia-expo-2015/> diakses pada 18 Mei 2016.

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Cheney, the benefits that be can be gained from development of clusters is¹²:

1. The atmosphere of competition between certain compenies in the cluster will spread and lead to competition between other companies in cluster that spurred accretion diversify new products.
2. Newcomers in cluster cause increased (upgrading).
3. Information flows freely and spread rapidly.
4. Interconnection within cluster generates new ways to compete and new opportunities for diversification.
5. Cluster will encourage growth and play a role in the stimulation of differentiation and help to overcome attitude that only focuses inward, not flexible and fast attitude are satisfied with what has been achieved, which is characteristic of companies that were nearing the end of its growth curve (naturing industries).

Clustering is applied to the palm oil industry in Indonesia basically want to improve competitiveness and increase value of palm oil production. It is a concern in construction of the Palm Oil Industrial Cluster (KIKS) beginning with commitment of central and local government, and then look at the factors that both industrial and nfastructure (roads, ports, etc) as well as public facilities. The determination of palm oil industrial cluster have some consideration. Some of the factorss include is availability of land, conditions, position of location of raw materials, ports and other infrastructure as well as regulation and incentives provided by local government. However, these requirement are not rigid due to different locations depending supporting factors and limaitations. Here are some of

the locations designated as palm oil industrial clusters, is:

- a. Sei Mangkei (North Sumatra)
Sei mangkei administratively located in Simalungun reGENCY, North Sumatra province, but is fuctional in the area of oil palm plantation owned by PT. Perkebunan Nusantara III (PTPN III). Developed land area of 2002 Hectare.
- b. Dumai (Riau)
Dumai is a municipality in the province of Riau. Land development of palm oil industrial cluster located in Bukit Kapur district with total area of 15,433 hectares, village of Lubuk Echoes of the spacious 2100 hectares and Basilam village with an area of 132 hectares.
- c. Maloy (East Kalimantan)
Maloy is located in East Kutai reGENCY, East Kalimantan province. The total area of the region in Maloy is 577 hectares.

Conclusion

Effort by the Indonesia government has not felt significant because it is relatively new, or in refinement stage. CSF came into force in May 2015 in the first year the new enactment provides support short term research and subsidies given to oil palm replating still touches a small part of farmrs. The limited budget and have not socialized widely constraint. *Indonesia Trade Promotion Center (ITPC) Chennai* executed based on the amount of funds received from state or private voluntary donations. So make a plan that is implemented in accordance with existing funds. Palm Oil Industrial Cluster (KIKS) in Sei Mangkei was inagurated by president jokowi in 2015 is not yet operating optimally. KIKS Dumai and Maloy in refinement stage. KIKS Maloy is planned to start operating in 2018.

Result of this research is the strategy of Indonesia government maintanins palm oil market in India through three steps above demonstrate positive impact. Although some parts are not running perfectly. The

¹² Cheney, *Policy Lessons from Trade Focussed, Two Sector models*, Journals of Policy Modeling, 12 (4), 2002. Hal 625-657

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government as a stimulant to increase competitiveness of Indonesia palm oil is felt has done its job as it should. Government agencies directly involved in this strategy also provides maximum performance. In the future this strategy can be continued with evaluation of continuous improvement

considering Malaysia as a major competitor of Indonesia palm oil exporters to India also has a strategy to continue to improve their competitiveness to take on position of Indonesia as the largest exporter of palm oil to India.

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