

THESIS

CPO market structure Analysis
In Indonesia Domestic Market:

"A Study of market concentration in the world market"



This Thesis is an application for the final completion of
terms and condition in order to achieve a Bachelor Degree
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ANALISIS STRUKTUR PASAR CPO DI PASAR DOMESTIC INDONESIA:
"SEBUAH STUDI KONSENTRASI PASAR DUNIA"

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ABSTRAK

Kebutuhan akan CPO untuk pembuatan makanan dan biofuel telah menempatkan produsen CPO untuk mendongkrak produksi mereka ke level berikutnya. Indonesia dan Malaysia sebagai "the largest CPO source" mulai bersaing untuk memenuhi kebutuhan dunia dari CPO. Skripsi ini menganalisa posisi Indonesia sebagai salah satu dari 4 besar negara produsen CPO. didapati Imperfect Market Practices pada struktur pasar CPO. Struktur pasar Monopsonistic ditemukan disebabkan adanya banyak permintaan yang besar pada produk akhir dari CPO. Implikasi terjadinya penurunan pada konsentrasi pasar terjadi pada negara Malaysia yang menjadi produsen CPO terbesar di dunia mengindikasikan kekuatan monopsoni tunggal telah berkurang pada negara tersebut. Hal ini juga mengindikasikan bahwa kekuatan pasar dari negara kompetitor lain dalam hal ini Indonesia, mengalami peningkatan. Situasi ini mengimplikasikan bahwa tidak ada dominasi ekspor dari satu negara yang bertahan lama dalam perdagangan CPO di dunia. Perubahan yang terjadi pada Concentration Ratio dan Herfindahl-Hirschman Index menunjukkan bahwa Malaysia adalah negara pengekspor terbesar CPO. Tetapi bukan sebagai kekuatan monopsoni tunggal di dunia perdagangan CPO. Kenaikan harga CPO juga disebabkan oleh entri baru biofuel sebagai salah satu produk turunan dari CPO.

Skripsi ini telah dipertahankan di depan sidang penguji dan dinyatakan lulus pada tanggal 14 Juli 2008 dengan penguji :

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Chapter 1

Introduction

The palm oil sector is still one of the most dynamic sectors of Indonesia's agro-industry, with new investment continuing, and output growing steadily.

The greatest gains in productivity are reported among the private plantations holders, where yields reached 19 tons/ha/year of Fresh Fruits Bunches (TBS = Tandan Buah Segar) in 2005, up from 16 tons/ha/year of TBS in 2004.

Many recently developed plantations, particularly in Kalimantan, have not even started to produce yet. In the next few years as these new areas begin to produce, output is expected to surpass that of Malaysia. In addition, despite many objections concerning environmental issues and the suitability of the area for palm oil production. Many market players have shown an interest investing in this new area. The expansion of oil palm cultivation in Indonesia has been driven by strong world demand for food especially fats and oils. Started in the island of Sumatra, it spread out to other islands like Kalimantan (Borneo), Sulawesi (Celebes) and Irian (Papua) but not to the island of Bali which is already well developed. The role of palm oil in developing remote inland regions and in improving the standard of living of rural population is noticeable.

1.1 Statement of the Problem

The strategic climate and Indonesia's positioning as the 2nd greatest producer of CPO in the world encourage to tendencies in imperfect market practices. In order to prove the situation of the problem, there are several tools shall be used on this thesis.

However, there have been few exhaustive studies made so far to determine whether there are monopsonistic or oligopsonistic practices of CPO exporting countries in the world trade of CPO. Before any policy measures in this particular are implemented, the existence of oligopsonistic and monopsonistic power among CPO exporting countries must be confirmed.

There are few instances in the real world where perfect market is observed. As such things may be found in the market for primary products where there are a large numbers of buyers and sellers. Nevertheless, perfect market competition conditions are as a starting point for economic price analysis to investigate a representatives of facts to explain a structural behavior of a particular market, of which then lead to a conclusion whether the efficiency exists in that market or not. In this light, perfect market competition conditions will be used to measure the market structure of crude palm oil (CPO) market.

If market structures of CPO world trade are operating under the perfect market conditions and the right structure, the other CPO producing countries whatever its nature at any level of marketing flows can sell all of its production and

Chapter 5

CONCLUSION AND SUGGESTION

5.1 Conclusion

This study attempts to investigate the evidence to explain precisely the efficiency of market structure of CPO in the world. Due to several reasons mentioned early; therefore, Crude Palm Oil had been chosen to be the quality grade of Palm Oil product under study. And the world had been chosen as the measurement for observations. The evidence in market trend and the inflation of CPO price in the world is examined through two economic analysis of market structure, i.e. Concentration Ratio, and Herfindahl-Hirsch Index which elaborated in Chapter 4.

From the description in chapter 4, we can see there are four countries that occupied as the largest CPO exporter since 2000 until 2005. They are Malaysia, Indonesia, Nigeria and Thailand.

Imperfect market competition occurred in world palm oil market from the exporter side and brought the market to a monopsonist structure.

The monopsony market structure is defined also by the price relationship between world price of palm oil price and local FFB price is proven significant.

Although Indonesia and Malaysia are the main player of the palm oil trade sector. It is assured that both of them are not the Price maker. Instead, they

became the price taker since the derivatives of palm oil structure is determined elsewhere. This status is determined by the derivatives product from CPO.

Indonesia and Malaysia already covers more than 85% of the share of Palm oil production. Moreover, Indonesia has stalking Malaysia in production and expected to overcome Malaysia in 2008.

But seeing the current situation, a Monopsony market structure is inevitable for both Malaysia and Indonesia. Few coalition in the upstream level may occurred between them in order to maintain the massive market power.

I concluded that Malaysia and Indonesia are the price taker for the CPO world trade. This conclusion is made based on figure 1.1 & 1.2 in chapter 1 which tells us that the main importers of CPO are unable to produce their own CPO due to the climate requirement in planting CPO and the Herfindahl – Hirschman Index result is **3709.582**. This result determines the CPO world market structure is concentrated and judging from the real market share for Malaysia and Indonesia, Oligopoly is the best option to conduct in order to maintain their position as the top producer and gain more benefits from the trade.

Yet the concentration ratio analysis that showing **0,90** in the previous chapter also proven that palm oil industries in the world is an monopsonist market.

The significant control of the market by Malaysia and Indonesia with 85% share of production around the globe causing both countries to maintain a collusion strategy to have the best position in bargaining power and improve this strategic industry.

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