# CHAPTER II INDONESIA AND ITS BIODIESEL EXPORT

This chapter will elaborate on the dynamic of Indonesian biodiesel production and anti-dumping investigation done by the European Union. This chapter helps the readers in understanding its background, including how biodiesel gained its popularity, Indonesian biodiesel production and export, and European Union dumping investigation.

#### A. Indonesia and its Biodiesel Capacity

Indonesia which is located between Australian and Asian continents owns plentiful natural resources including palm oil. Indonesian palm oil is mostly planted in the palm tree areas in Sumatra and Kalimantan. Indonesian oil and gas production and export have a significant contribution to Indonesian revenue rather than other commodities, such as mining, agriculture, and industrial products.

# Figure 2.1 Natural Resources in the Indonesian Economy: Export Decomposition



Source: Census and Economic Information Center (CEIC), 2015

Indonesia is a developing country. Although this country classification has numerous agreement and debate, Development Policy and Analysis Division (DPAD) of the Department of Economic and Social Affairs of the United Nations has summarized a set of data to classify countries into three broad categories: developed economic, economic in transition, and developing economies; rather than addressing countries into two traditional categories: developed and developing countries. According to the World Economic Situation and Prospects (2014), Indonesia is listed as developing economies by region in East Asia.

Indonesia is the current largest biodiesel producer derived from Asia after the United States and Argentina, followed by Brazil, and China. It means that Indonesia as a developing country has been severe in managing its biodiesel production and export to maximize the unleash economic potential to become world-leading renewable energy producers, such as palm oil.



Figure 2.2 Top 5 Biodiesel Producers in 2015

Source: IEA Key World Energy Statistic, 2015

### B. Biodiesel as an Alternative Fuel

Biodiesel is one of the alternative fuels used for diesel machine. Biodiesel is made from renewable material from vegetable oil (soy, canola, mustard, et cetera.), animal fat (tallow, lard, et cetera.), and recycled cooking greases (grease, cooking oil, et cetera.). (Ministry of Transport, 2013). Nonetheless, biodiesel could be produced in its original formula or mixed with current petroleum at any level.

Biodiesel has become a prominent applicant to replace fossil fuel as the primary source of transportation energy due to its raw material that is originally coming from renewable sources. It also has the first benefit of greenhouse gas emissions reduction. However, gasoline and diesel are ancient fuel, as known as fossil fuels since they are made from decomposed plants and animals that have been buried in the ground for millions of years. Unlike gasoline and diesel, biodiesel is made from plants grown today (National Geographic, 2018).

### C. The Benefits of Using Biodiesel

The growing concern about global warming caused by carbon dioxide emissions has made the biodiesels gain its popularity. Besides, using biodiesel has many benefits, not only reduce the source of atmospheric carbon dioxide, but it also provides air quality that affects the human health, because it is nontoxic and biodegradable (Ministry of Transport, 2013). Thus, utilizing biodiesel usage is a method to reduce global warming. Furthermore, biodiesel has been found to have unique environmental advantages in terms of emissions. reduced better energy independence, decreased global warming effects, and constructive impact on agriculture (Walker, 2013).

Unlike the petroleum diesel, non-biodegradable product, biodiesel can lower the greenhouse emissions, that it is part of the carbon cycle and not stored from the lower part of the soil and did not cast loose the perilous carbon. As a result, it makes a better condition for air due to it is containing 11% oxygen, which means it reduces the black soot level (U.S. Department of Agriculture, 2016). Not only lowering the greenhouse gas emissions, but new diesel is also better for air circulation and very clean.

Biodiesel also roots way less harm than current ordinary diesel leaked. Hence the, biodiesel is harmless than ordinary fuel diesel. Biodiesel has less-hazardous characteristics. Besides, in using the engine, it needs no modification; thus, by applying biodiesel as the primary option fuel, it will eventually recover the air eminence and the atmosphere, upsurge energy sustainability, and offer protection profits to human and it is surrounding. Above all, biodiesel has the probable for noteworthy commercial prospects for communities and industry due to its high-potential in massive productions and usage in the near-future. There are numerous groups have operated to establish a biodiesel industry in order to boost the economic productivity and generate money from the new petroleum industry, biodiesel, out of the community, and affect the country in general. Indonesia also produces a massive number of biodiesels that it has redounded lots of national revenue.

### D. Indonesia's Biodiesel Production and Export

The usage and production of biodiesel are highly increasing across Europe, the United States, and Asia. In Europe, Biodiesel has been produced commercially since 1992, and European countries are worth more than 80% of global consumption. The expenditure on biodiesel is also doubled in the United States and Asia, particularly India and China, which the government targets 15% replacement of fossil fuel to be renewable energy sources by 2020 (Bioenergy Australia Forum, 2015).

Indonesia as one of the leading biodiesel producers in the world perceives that the European Union market potential for export shipping. The European Union area, mainly 28 members countries are the fourth biggest Indonesia's export destination after China, Singapore, (Kementerian Luar Negeri and Japan Republik Indonesia, 2016). The European market potential is also supported by the Comprehensive Economic Partnership Agreement (Indonesia-EU CEPA) which is a lawfully requisite economic treaty between the EU and Indonesia. It is a distinct form of international agreements due to its partnership and collaboration treaty the EU in order to sustenance economic cooperation with Indonesia.

Subsequently, Indonesia is maximizing its biodiesel production to export to other countries, specifically the European market, as the EU has committed to reducing carbon emission in order to prevent further injury on global warming. Indonesia is producing biodiesel immensely, and it is increasing year after year and peaks the number of productions in 2013 as shown in the table below.

# **Table 2.1 Indonesia's Biodiesel Production**



*Source:* Global Agricultural Information Network, MEMR, GTA (trade data), post-estimation 2018

The implementation of palm oil in Indonesia has changed biodiesel consumption has decreased to zero due to low fossil fuel price and ineffective supporting program. Under this new program, biodiesel production increased significantly, that improves the biodiesel consumption in domestic.

The biodiesel export activities from Indonesia has decreased from 2013-2017 in a row due to international demands, namely, from China and Europe demands have decreased due to the competition of fossil fuel and taxation. In 2014, export decreased from 1.8 to 1.3 billion liters, and export in 2015 decreased from 1.8 million to 343 million liters, while in 2016 the number of exports was slightly increasing to 476 million liters, but then it decreased harshly to 187 million liters. 2017 is the bottom point of Indonesian biodiesel export activities as shown on the table below.

 

 Table 2.2 Indonesia's Biodiesel Production, Supply, and Demand Statistic

Biodiesel (Million Liters)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Beginning Stocks	15	22	16	29	27	11	559	1,009	1,181	1,839
Production	330	740	1,812	2,270	2,950	3,962	1,653	3,656	3,416	3,900
Exports	204	563	1,440	1,515	1,800	1,350	343	476	187	1000
Import	0	þ	0	5	24	0	0	0	0	0
Consumption	119	223	359	669	1,048	1,845	860	3,008	2,572	3,300
Ending Stocks	22	16	29	27	11	559	1,009	1,181	1,839	1,439

# Source: Global Agricultural Information Network, MEMR, GTA (trade data), Post-estimation 2018

Despite the rapid growth trend on Indonesia's biodiesel production, Indonesian biodiesel export is imbalanced. The increasing trend started in 2010 for both production and export. The amount of export was slightly increasing until 2013 before the anti-dumping measures imposed on Indonesia.



Figure 2.3 Indonesia's Biodiesel Production & Export 2009-2018

*Source:* Global Agricultural Information Network, MEMR, GTA (trade data), Post-estimation 2018

The data provided above, 2009-2018, shows that Indonesian biodiesel production increased significantly. In 2015, it decreased rapidly, due to the biodiesel producers were in a position of "waiting" subsidiary fund from the government. However, in 2013, the biodiesel export declined severely until 2017 because of the EU's restriction policy in regards of dumping accusation with very high tax against imported biodiesel (Indonesian Palm Oil Association, 2017).

The European's consumption of biodiesel has practiced remarkable progress during the last decade. It was growing in a total of 57% starts from 2007 to 2012 while it inclined significantly in 2013. At present, nearly 200 biodiesel productions operated in Europe, with a manufacture size of over 8.5 million tons. In terms of conveyed capacity in 2012, the EU touched 23.2 million tons. In the world portrait, European biodiesel represents 43% of the world's production in 2011 according to the US Energy Information Administration. Biodiesel production in Europe has reduced during the last years despite its strong progress consumption and production. The economic crisis and the growth inflicted on the biodiesel and fuel price have enforced the Europeans government to reduce the biodiesel usage and blend with the traditional fuels as they are charged lower than biodiesel though have additional consequences of being harmful to the environment.

Furthermore, the current discussion on the Fuel Quality and Renewable Energies Directives and involving stakeholders to proceed with the legal insecurity and investors' startle. In June 2014, the Council permitted a 7% cap for first-generation biofuels to be still maintained by the EU Parliament. While at the same time, Argentina and Indonesia were inflicting harm to the European biodiesel producers due to immense imports and dumping practices (European Biomass Industry Association, 2006).

Table 2.3 The European Union Biodiesel Importsfrom Indonesia 2009-2012

		2009	2010	2011	2012
Biodiesel Imports	Total imports (tons)	157,915	495,169	1,087,518	995,663
from Indonesia	Index 2009=100	100	314	689	631

### Source: Official Journal of the European Union, 2018

During Indonesia biodiesel export activities to the European market, it grasped the European market that peaked its biodiesel export in 2011, which was reached at US\$1.4 billion before the EU imposed the antidumping measures on Indonesian biodiesel products in 2013. Subsequently, the Indonesian biodiesel exports to the EU constantly degenerated, with the lowest level taking place in 2015 (US\$68 million) (Ministry of Foreign Affairs Republic of Indonesia, 2018).

As a result, the European Commission accused Indonesia of doing dumping practices to its biodiesel product in the European market due to its massive amount of exports that were considered harming the domestic production and consumption. However. dumping is a permanent feature of marketing strategies of numerous companies, and anti-dumping complaints are increasingly resorted to as a defensive tool to stop the challengers. Dumping can also be defined as offering a product for sale in foreign markets at a price below the normal value. The normal value is generally defined in anti-dumping regulation as the price charged by a firm in its home market. The normal value is calculated between its comparisons to the 'export price.' However, developed countries such as European countries and the United States are commonly applying anti-dumping policy against the developing countries. Since the establishment of WTO, there are more than two thousand anti-dumping practices, as the anti-dumping policy is still ongoing until today. Therefore, anti-dumping practices are frequently subjected to the dispute among WTO members.

Nevertheless, WTO's regulation does not forbid dumping (Bossche, Natakusumah, & Koesnaidi, 2010, p. 39). Therefore, an export company may practice dumping if:

- 1) It has some control over prices in at least one of the markets,
- 2) It can segment markets so that cheap export cannot be shipped back to its home market, and
- 3) The elasticity of demand facing the company is higher for exports than for domestic sales (Kostecki, 1991, p. 7).

## E. Dumping Investigation

On 29 August 2012, the European Commission initiated an anti-dumping investigation against imports of biodiesel from Indonesia and Argentina with the publication of the notice of initiation of the investigation in the European Union's Official Journal. On 28 May 2013, provisional measures were imposed against Indonesian imports through the publication of the Provisional Regulation in the European Union's Official Journal. The measures came into effect the following day. For the sampled Indonesian exporting producers, the provisional measures ranged between zero and 9.6%.

<b>Table 2.4 Provisional Anti-Dumping Measures</b>	on
Several Indonesian Companies	

Company	Provisional anti-dumping duty
PT. Ciliandra Perkasa, Jakarta	0.0%
PT. Musim Mas, Medan	2.8%
PT. Pelita Agung Agroindustry, Medan	5.3%
PT. Wilmar Bioenergy, Indonesia, Medan; PT Wilmar Nabati, Indonesia, Medan	9.6%
Other cooperating companies	6.5%
All other companies	9.6%

Source: WT/DS480/R/Add.1. Report of the Panel., 2018

At this level of the temporary levy, the dumping margin for Indonesian biodiesel producers was constructed on a comparison of the raised normal value with the export price. The constructed normal value was based on the documented prices of manufacture of biodiesel of the Indonesian biodiesel exporters, their selling, general and administrative costs ("SG&A") plus a 15% profit margin. As a result, on 1 October 2013, the European Commission proposed the imposition of definitive measures (WTO, 2018, p.12).

At this stage, while the European Commission retained its finding of injurious dumping but drastically reviewed its procedure of defining the biodiesel cost of production. In particular, the European Commission rejected the recorded and verified cost of production of biodiesel of the Indonesian producers and replaced it with an out-of-country/international benchmark resulting in significant inflation of the dumping margins for all exporting producers.

The European Commission justified its replacement of the charge of production of Indonesian exporting producers and the use of an out-ofcountry/international benchmark for the adjustment from the existence of a differential export tax system in Indonesia. The European Commission found that, under this system, the export tax on PME was lower than that on palm oil and palm oil derivatives, thereby "distorting the cost of production of biodiesel producers" and resulting in crude palm oil ("CPO") prices in Indonesia to be depressed (WTO, 2018, p.12).

On this basis, the European Union definitively imposed anti-dumping duties ranging between 8.8% and 20.5% on the Indonesian exporting producers:

Company	Provisional anti-dumping duty
PT. Ciliandra Perkasa, Jakarta	8.8%
PT. Musim Mas, Medan	16.9%
PT. Pelita Agung Agroindustry, Medan	16.8%
PT. Wilmar Bioenergy, Indonesia, Medan; PT Wilmar Nabati, Indonesia, Medan	20%
Other cooperating companies	18.9%
All other companies	20.5%

 Table 2.5 Anti-Dumping Measures Imposed by the

 European Union on Several Indonesian Companies

Source: WT/DS480/R/Add.1. Report of the Panel.

Therefore, the taxation done by the European Commission against the biodiesel from Indonesia was increasing in rapid inconsiderable number. These tariffs affected several Indonesian companies which brought impact to other sectors. They involved many levels of economic scale both macro and micro.

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