



# Indonesia Investments

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## **Biodiesel Program of Indonesia**

- Biodiesel Is Part of Indonesia's Renewable Energy Commitment, Yet Its Key Feedstock (FAME) Is Linked to Deforestation
- Despite Challenges, Indonesia's Biodiesel Program & Consumption Is Growing Steadily
- Biggest Challenge: Too Dependent on State Subsidies and Other Incentives
- What Is Undermining Indonesia's Bioethanol Program?
- Biodiesel's Long-Term Outlook Is Uncertain as the Electric Vehicle Arrives

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**Van Der Schaar Investments B.V.  
CV Indonesia Investments**

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Update – 2 February 2022

## Biodiesel Program of Indonesia



# Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates may be discussed in more detail (and in an updated form) in the forthcoming report.

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## - Energy -

# Biodiesel Program of Indonesia

Biodiesel, which is a form of diesel fuel that is derived from plants or animals (in the case of Indonesia it mainly uses fatty acid methyl ether, FAME, which is derived from palm oil), has been on the political agenda of Indonesia since the 1990s when the first (in-depth) research was conducted by a number of state agencies.

When global oil prices started to rise profoundly in the mid-2000s, studies became more serious as the government – back then under the leadership of President Susilo Bambang Yudhoyono (SBY) – started to feel massive pressures due to ballooning fuel subsidies as domestic fuel demand soared (amid the country's rapid economic expansion), while Indonesia's oil production has been in a state of decline ever since the mid-1990s, thus causing the growing need for oil and fuel imports into Indonesia (turning the nation into a net oil importer in the mid-2000s).



Considering slashing the fuel subsidies has always been a sensitive issue – and one that is not without political risks – in Indonesia (although President Joko Widodo had more courage to go for such structural reforms after he came into office in late-2014), an alternative fuel would therefore be a problem-solver (including reducing the link between Indonesia’s annual state budget and international oil prices as an increase in global oil prices would cause a rising budget deficit).

Through Energy and Mineral Resources Law No. 32 of Year 2008 on the Provision, Utilization, and Trading Procedures of Biofuel as an Alternative Fuel, the biodiesel program was imposed in Indonesia in 2008 with a 2.5 percent mandatory mixture (implying 2.5 percent biodiesel was mixed together with 97.5 percent petroleum-diesel), abbreviated as the B2.5 program. Gradually the biodiesel mix rate was raised over the years. Hence, the B7.5 program was initiated in 2010, followed by the B10 program in 2014, the B15 program in 2015, the B20 program in 2016, and the B30 program in 2020 (with a biodiesel content of 30 percent). At the launch of the B30 program President Widodo said the program can save some IDR 63 trillion (approx. USD \$4.5 billion) in foreign exchange, and more generally, “it can help Indonesia to become independent in terms of energy”.

And, there are a number of factors (or circumstances) that – indeed – seem to make Indonesia a great place to produce (and use) biodiesel:

- Indonesia is the world's largest palm oil producer, so it has relatively easy and cheap access to fatty acid methyl ether (FAME), a key raw material for the production of biodiesel that is derived from palm oil;
- The biodiesel program pushes domestic consumption of palm oil higher, hence it could somewhat undermine the country's export performance (unless overall production of palm oil continues to rise accordingly). The positive consequence is, though, that it could support international palm oil prices. While higher palm oil prices are negative for biodiesel producers (as their production costs rise), it is positive for the 16.5 million palm oil farmers in Indonesia who should benefit from higher palm oil prices;
- Indonesia has a big domestic market in terms of diesel engine-traffic (particularly trucks as land transport remains the most popular means of transport in Indonesia);
- As Indonesia has become a net oil importer, an increase in domestic consumption of biodiesel will allow for a reduction in imports of oil and fuel, thereby allowing Indonesia to save billions of US dollars in foreign exchange. This implies a decline in pressures on the trade balance, current account balance, and rupiah exchange rate;

- Biodiesel is a cleaner alternative fuel (as biodiesel encourages a reduction in pollution and lowers CO2 emissions). Biofuel based on palm oil can cut 50-85 percent of greenhouse gas emissions compared to fossil-based fuels (without considering the effect of land-use change). As such, it helps Indonesia to achieve its environmental ambitions (Paris Agreement on Climate Change);
- Abroad (particularly in the European Union) palm oil demand is undermined by negative campaigning, hence potentially disrupting Indonesia's future palm oil exports. Boosting domestic consumption of palm oil is therefore a positive matter in order to make the palm oil sector of Indonesia a more sustainable business for the long-term future.

#### Advantages of the Implementation of the B20 and B30 Biodiesel Programs:

	B20 Program 2018	B20 Program 2019	B30 Program 2020
<b>Used Volume</b>	3.75 million kiloliter = 23.6 mln barrel/year	6.62 million kiloliter = 41.7 mln barrel/year	9.59 million kiloliter = 60.3 mln barrel/year
<b>Foreign Exchange Saved</b>	USD \$1.89 billion	USD \$3.04 billion	USD \$4.40 billion
<b>Reduction Greenhouse Gas Emissions</b>	5.61 mln tons of CO2	9.91 mln tons of CO2	14.34 mln tons of CO2

Source: [Energy and Mineral Resources Ministry](#)

[...]

Read the full article in the January 2022 report. This report can be ordered by sending an email to [info@indonesia-investments.com](mailto:info@indonesia-investments.com) or a message to +62.882.9875.1125 (including WhatsApp).

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This article on the topic of biofuels in Indonesia can also be ordered separately for the price of Rp 45,000. For more information, contact us!