Editorial

Cooking oil price still high

Trade Minister Muhammad Lutfi's concerted efforts over the past three months to keep the retail price ceiling of cooking oil to between Rp 11,500 (80 US cents) and Rp 14,000 per kilogram have been ineffective.

He even took the bull by the horns in late January by legally requiring crude palm oil (CPO) and olein producers to sell 20 percent of their export volume to domestic cooking oil factories at the domestic price obligation, which is only half the figure of international prices. He further strengthened the policy last week by increasing the domestic market obligation (DMO) to 30 percent. But the price of cooking oil remains high in many cities.

The problem is not a lack of supply, as Indonesia is the world's largest producer of palm oil with an output of over 55 million tons last year. The latest data shows that the country even exported 16 million tons of cooking oil last year.

The crux of the problem is that international oil prices have more than doubled over the last two years and the positive market economics tells producers to export to maximize profits. But when the government pursued normative economics by controlling domestic prices to protect consumers, it forgot one very important thing: It did not assign a special agency to manage the market-control mechanism.

The Trade Ministry cannot manage the market control by itself, especially because the wide disparity between DMO prices and free-market prices is so wide that the palm oil or olein allocated for DMO is prone to export smuggling in view of the vast, porous coastal areas across the archipelago.

With Idul Fitri holidays — when household spending usually soars — only two months away, the cooking oil debacle must be addressed as soon as possible. Whatever new policy measure President Joko "Jokowi" Widodo will take within the next few days, it should include the assignment of a special agency to manage the DMO and fixed price ceiling.

In this case, we think, the State Logistics Agency (Bulog) with its nationwide points of distribution and warehouses is the most qualified to manage the supply and distribution of cooking oil.

Bulog can be assigned to procure bulk and simple packaged cooking oil from producers at the DMO price, and sell the oil at the same price plus a government-fixed margin to retailers who then sell the oil at a fixed retail price ceiling. Bulog can also distribute its stock through market operations to quickly address any shortage in specific areas.

Certainly, Bulog's procurement capacity should be substantial enough to enable it to drive the market equilibrium price to the fixed price ceiling and to caution off potential hoarders. Bulog's initial working capital for market operations can be derived from the Palm Oil Plantation Fund Management Body (BPDPKS), which collects surcharges from palm oil exports.

The BPDPKS, which last year spent almost Rp 52 trillion on biodiesel subsidies, still has enough funds to finance Bulog's cooking oil market operations. Given the risk of inflation, Bulog's cooking oil market operations should be prioritized over biodiesel subsidies.

Time to review biodiesel policy as palm oil prices skyrocket

Controversy has never ceased over the palm oil industry. It induces either extreme love or hate.

It is loved by Indonesian smallholder growers and big plantations for its productivity, cost effectiveness and product versatility, especially as global palm oil prices have more than doubled over the last two years.

But the commodity has been incessantly attacked in Europe and the United States through boycott campaigns, which allege that oil palm estates are responsible for massive deforestation in Indonesia and create unfair competition against other vegetable oils from developed countries.

At home, the industry has been slammed over the last three months by consumer organizations for alleged cartel-like practices in the cooking oil market and even investigated by the Business Competition Supervisory Commission (KPPU) over possible abuse of market power by the largest producers.

Long lines of consumers looking to buy cooking oil at the government-set retail price of between Rp 11,500 (80 US cents) and Rp 14,000 per kilogram have been common sights in many cities, despite the draconian government policy of imposing a domestic market obligation (DMO) of 30 percent of the export volume on crude palm oil (CPO) producers.

The DMO requires CPO producers to sell the commodity at a fixed price of Rp 9,300 per kg, less than half the free market price of $1 per kg. The price for DMO olein is fixed at Rp 10,300 per kg.

The big question, though, is why the government is still unable to control cooking oil prices at its retail price range, when the palm oil industry association has claimed that household and industrial cooking oil consumption only amounted to 9 million tons of the 56 million-ton national CPO output in 2021.

Some analysts say the debacle is the result of the government's ad hoc policy approach to exploit palm oil.

While the Trade Ministry remains embroiled in a tug-of-war with cooking oil producers and distributors, another controversy erupted from a recent report by the Palm Oil Plantation Fund Management Body (BPDPKS).

Antara/Jessica Helena Wuysang

Still scarce: People line up to buy cheap cooking oil at Flamboyan traditional market in Pontianak, West Kalimantan, on Thursday. Cosponsored by the Pontianak city administration, Bank Indonesia and agri-company Wilmar, the oil cost Rp 11,500 (80 US cents) per liter with a maximum purchase of 5 liters per person.

By Edi Suhardi

Jakarta

A sustainable palm oil analyst

The agency was established in mid-2015 to manage funds from a surcharge imposed on palm oil exports when international palm oil prices are higher than the fixed price ceiling.

The BPDPKS recently reported to the House of Representatives that almost Rp 140 trillion had been collected cumulatively from palm oil export surcharges between 2015 and 2021 under the CPO funding scheme.

Almost 80 percent of this amount, or Rp 110.3 trillion, was used to subsidize biodiesel and only 5 percent (Rp 6.6 trillion) was allocated for replanting smallholder oil palm estates.

In 2021 alone, subsidies for biodiesel (diesel blended with CPO) totaled Rp 51.8 trillion, up significantly from Rp 28 trillion in 2020 and just Rp 3 trillion in 2019, as a result of skyrocketing CPO prices over the last two years and the increase in the biodiesel mix to 30 percent CPO (B30).

The association of smallholders, which account for around 40 percent of the estimated 16 million hectares of oil palm estates, cried out, protesting strongly that the fund's use was not in line with the main objective of the CPO support fund to enhance palm oil sustainability through replanting smallholder estates with higher yield seedlings and research and development.

Several analysts even immediately blamed the current turmoil in the cooking oil market on using CPO for biodiesel, whereas only around 9.3 million kiloliters of biodiesel were produced in 2021.

The question, then, is whether the huge subsidy is still worthwhile. According to the energy ministry, last year's biodiesel consumption of 9.3 million kiloliters saved only Rp 66.5 trillion in imported diesel.

Under the current circumstances, pressure is mounting to review two aspects of the CPO support fund, namely the surcharge rate and the fund's intended use.

First, the extra levy on palm oil exports has been a burden on producers, big plantation firms and smallholders.

For example, in September 2021, when the global CPO price was $1,185 per ton, CPO producers were levied almost 30 percent, or $341, consisting of $175 for the CPO support fund and $166 in export tax.

The proportions of the levy intended for the support fund and as export tax should therefore be set at a maximum 15 percent of the CPO market price under the progressive pricing scheme. The surcharge and the export tax are similar in nature.

Lower dues will allow CPO producers, notably smallholders, to invest in improving their yield and sustainability.

Second, the use of the CPO support fund should be refocused to prioritize stabilizing the retail prices of cooking oil for low-income consumers and replanting smallholder plantations with high-yield seedlings to increase their productivity, which is still half as high as their Malaysian counterparts.

Environmentalists have suggested that if the productivity of smallholder plantations could be increased, Indonesia would not need to expand plantations at the risk of damaging forests.

Another priority should be research and development into sustainable palm oil.

As the prices of both CPO and crude oil have now reached historical highs and will likely remain at peak prices because of the geopolitical fallout from the war in Ukraine, biodiesel will need even bigger subsidies.

Continuing or even expanding the biodiesel program will not contribute greatly to palm oil development because the majority of the biodiesel subsidies are enjoyed by the largest palm oil groups with integrated palm oil industries anyway.

Palm oil biofuels have become less commercially feasible for renewable energy today, because of the commodity's versatile use in food and a myriad of other consumer goods. Food and fuel will continue to compete fiercely over CPO, especially because CPO has become increasingly popular as a vegetable oil.

The current emergency situation calls for comprehensive and integrated policies, as the wide disparity between the prices of CPO in the market and under ad hoc DMO policy is vulnerable to overseas smuggling, considering the archipelago's vast and porous coastlines.

Carillo's story of courage, persistence

By Laura Daverio

The Globalist/Mexico City

An Italian journalist, radio and video documentary maker

Male figure skating is not big in Latin America. Until recently, there has never been a male athlete from the region in the free skate category at the Olympic Winter Games.

That changed when Donovan Carrillo made history by qualifying for the finals at the 2022 Beijing Winter Olympics. Dancing to the music of Carlos Santana, the 22-year-old Mexican athlete completed his routine with a smile that has moved a nation.

He didn't bring a medal home, but he made Mexico proud in the very sport that he had been bullied in for his entire life.

In Mexico, figure skating is perceived as a "woman's sport".

Carrillo's dream had come true, but the cost had been high. Growing up he was told to dedicate his efforts to soccer instead. And he was warned that figure skating would put him "at risk" of becoming gay. But Carrillo persisted.

Skating is expensive. Carrillo ended up practicing in his sister's skates, as his family could not afford to buy him his own pair. Eventually, Carillo moved to the city of Leon in the central Mexican state of Guanajuato, to live with his trainer.

He practiced in ice skating rinks inside shopping malls, fighting to concentrate despite the loud music, sharing the space with families, romantic couples and even hockey players.

There was little choice in a country with an unsupportive sports ecosystem that was resource-poor but rich in corruption. For 11 years, his family and friends helped him financially, but he had to give up participating in competitions many times as he couldn't afford the trips.

Carillo had to wait until he was 19 years old before finally being able to procure a sport scholarship in 2019. This finally opened doors to more professional opportunities for him.

Following Carillo's excellent performance at the 2022 Winter Olympics, surprise, pride and congratulations for the feat flooded social media.

However, it wasn't long before speculations surfaced over the figure skater's presumed sexual orientation. This was despite the fact that he is publicly identified as heterosexual.

It is not uncommon for athletes to face bigotry in Latin America. Another example is that of female weightlifter, Luz Acosta. She took up the sport in the 1990s against her parents' wishes. She was told that such an unfit sport for women would make her sterile.

Acosta eventually won a bronze medal at the London Olympics in 2012.

Carillo has certainly broken a new barrier as a Mexican man excelling in what is falsely presumed a "woman's sport". But his example is unlikely to change Mexico's long history of gender-based prejudice overnight.

A long road ahead remains.

Enabling cyber risk disclosures to drive financial resilience

By Etikah Karyani and Taufik Faturohman

Bandung

Etikah Karyani is a researcher and former reporting analyst and management accountant at various Indonesian companies; Taufik Faturohman is a lecturer at Bandung Institute of Technology School of Business and Management (SBM ITB).

The COVID-19 pandemic is an external shock and banks across the world have been helping to fund emergency response efforts. As the pandemic continues with no one knowing when it will end, banks must continue to address obstacles to retain profitability, maintain future financial resilience and avoid the risk of cyberattacks.

As the *2021 COVID Crime Index* reported, cybercrimes were the most significant element impeding or affecting financial institutions and their customers between March 2020 and March 2021 that resulted in financial losses.

Due to banks' reliance on information and their essential role in the credit intermediation process, the banking industry has been a major target of cybercrimes. This made it imperative for the industry to identify, assess, manage and report all forms of risks so they could be used to make better decisions.

The Standing Advisory Group of the nonprofit Public Company Accounting Oversight Board (PCAOB) also considered the potential consequences of cybersecurity on financial reporting and audits. As a Group of 20 member, Indonesia also issued a regulation on cyber incident response and recovery through the Financial Services Authority (OJK).

The components are nearly identical to those found in the Financial Stability Board (FSB) toolkit as defined by OJK Regulation No. 38/2016 on implementation of technology and information risk management by banks, which was amended by OJK Regulation No. 13/2020 and OJK Circular No. 21/2017.

As part of its regular assessment of operational risks, the OJK also assesses banks' information technology systems that have been involved in cyber incidents. Unfortunately, there is no specific requirement that cybersecurity risks or incidents be disclosed in annual reports.

The increasing complexity and digitalization of the banking industry has the potential for cyber risks that can disrupt banking performance.

The more a system is based on intangibles, the more vulnerable it is, so the organization's financial performance is unstable and risks being nonresilient.

Therefore, high-quality risk disclosure will be good for the market in helping investors make more informed decisions, as well as for financial stability to reduce the possibility of unexpected events to disrupt the system.

In addition, the disclosure of cyber or information technology (IT) risks could help stakeholders and investors understand how to manage cybersecurity risks.

An ideal solution would be to work toward a consensus, in collaboration with the Basel Committee, the FSB and the International Accounting Standards Board, that cyber threats to banks' financial resilience should be disclosed in their annual reports.

The government might consider adopting policy and regulatory measures to help companies integrate cyber events into their annual reports and give examples of how companies have adopted cyber risks to illustrate opportunities and inspire resilience.

When it comes to policy, we recommend that these items be disclosed in the annual report.

First is cyber risk governance that covers board-level cybersecurity oversight, including board-level committee oversight, directors' qualifications and the management's board reports.

Second, the causes of cyber risk should include risk statements on cybersecurity and data privacy, cybersecurity risk mitigation and response efforts and engagement with external security consultants.

Finally, the impacts of cyber risk should cover damage to a bank's reputation, financial losses and/or legal actions or implications.

Cyber risks and threats have increased multifold and become more sophisticated, especially in the banking industry. On the other hand, banks are intermediary institutions that have a very important role in the economy. The banking industry is the most regulated, to maintain its prudence and trust in the market.

Therefore, any risks must be identified, measured, mitigated and monitored accordingly.

However, the challenges to disclosing risks have also increased, especially cyber risks. The primary challenge is boards' reluctance to get involved and set the tone at the top.

Second, companies' IT, cybercrime, fraud and risk budgets have been cut and the number of IT security personnel have had to be reduced.

Third, no uniform understanding and awareness about cyber risks and threats exist among G20 members, while the forum's emerging members are less resilient and more vulnerable due to their limited technology and capacity to detect and mitigate risks. In addition, no multilateral rules govern cybersecurity risk mitigation.

G20 countries, especially those that do not require the inclusion of cyber risk disclosures in annual reports, need to adopt a sounder policy. The G20 should promote a policy consensus on requiring banks to disclose cyber risks and threats in their annual reports.

The forum should also establish a cyber risk disclosure and governance board to promote cybersecurity and protect consumers and society. Establishing this board and the ensuing collaboration will strengthen all member countries, in particular their banks' resilience to cyber risks, as well as secure future growth and prosperity for the global economy.

Lecturer Ana Noveria and assistant professor Raden Aswin Rahadi from SBM ITB also contributed to this article, which is based on the research paper, Financial Resilience in ASEAN-4 Banking Sector: Impact of Cyber Risk Disclosure.

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EDITORIAL AND GENERAL DEPARTMENT
Jl. Palmerah Barat 142-143, Jakarta 10270
(62) (21) 5300476, 5300478 ● Fax (62) (21) 5350050, 5306971
editorial@thejakartapost.com

ADVERTISING AND CIRCULATION DEPARTMENT
Jl. Palmerah Barat 142-143, Jakarta 10270
(62) (21) 5360001, 5360003, 68469983 ● FAX (62) (21) 5360008, 5360009
as@thejakartapost.com [ADVERTISING] subscription@thejakartapost.com [SUBSCRIPTION]

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Jl. Palmerah Selatan No. 22-28, Jakarta 10270