DYNAMIC INTERPLAY OF SUPPLY CONSTRAINTS, MANDATES, AND MARKET MECHANICS IN THE GLOBAL PALM OIL SECTOR

Indonesia's dominant crude palm oil (CPO) sector, controlling over 55% of global exports, faces tight supply, structural bottlenecks, and a mandatory B50 biodiesel expansion by 2027. Climate shocks will drop 2027 output to 56.8 million tons, while B50 locks in 29 million tons domestically, slashing exports. This supply squeeze has pushed global prices past IDR 21.3M – 21.8M per ton, driving record margins for low-cost upstream producers on the Indonesia Stock Exchange (IDX).

Indonesia's Global Market Dominance and Export Growth

Indonesia maintains an unprecedented hold on the global edible oil market. With total production reaching 46 million metric tons (USDA 2024/2025 baseline) and total CPO/PKO output reaching 58.5 million metric tons (2026E), palm oil remains the most land-efficient and cost-competitive vegetable oil worldwide.

In 2025, Indonesia exported 23.61 million metric tons of palm oil (+9.09% YoY), primarily driven by sustained demand across key Asian growth hubs:

Destination Market	Export Volume (Million Metric Tons)
China	4
India	3.3
Pakistan	3.2
United States	1.6
Bangladesh	1.5

Riau leads Indonesia's CPO exports, shipping 10.7 million metric tons (+20.95% YoY) from 3.49 million hectares of land. Other major exporting provinces include Sumatra Utara (3.3M tons), Kalimantan Timur (2.4M tons), Lampung (2.3M tons), and Sumatra Barat (2.3M tons).

The Palm Oil Squeeze: Supply Drops, Biofuel Rules, and Rising Prices

Indonesia's palm oil industry is facing a major shakeup due to weather, new green energy laws, and rising global prices:

- Less Supply Due to Weather & Old Trees: Severe droughts (El Niño) and expensive fertilizers mean less palm oil is being produced. In fact, 2027 production is expected to drop to 56.8 million tons. Plus, many trees owned by independent farmers are getting too old, meaning they naturally produce fewer crops.
- The New B50 Fuel Law: Right now, Indonesia mixes palm oil into its diesel fuel to create cleaner energy. In 2027, the government plans to make B50 biodiesel mandatory (a mix of 50% palm oil). This will require 29 million tons of palm oil locally, leaving much less available to export to other countries.
- The Tax Problem: The government pays for these fuel programs by taxing palm oil exports. But if Indonesia exports less oil, it collects less tax money. To fix this, they might raise taxes, which could accidentally lower the profits and income of everyday local farmers.
- Rising Global Prices: Because palm oil is getting harder to find, global prices have jumped to IDR 21.3M – 21.8M per ton (up 10%). Experts think prices will go even higher, which means well-run palm oil companies stand to make a lot of money.

Top 5 CPO Stocks on the IHSG (IDX)

Ticker	Company Name
LSIP	PT Perusahaan Perkebunan London Sumatra Indonesia Tbk
TAPG	PT Triputra Agro Persada Tbk
DSNG	PT Dharma Satya Nusantara Tbk
AALI	PT Astra Agro Lestari Tbk
SSMS	PT Sawit Sumbermas Sarana Tbk

Conclusion

The Indonesian palm oil industry is entering an era defined by supply tightness, policy-driven domestic absorption, and elevated global prices. While weather risks and stagnant yields challenge total volume growth, pure-play and highly efficient upstream producers (LSIP, TAPG, DSNG, AALI, SSMS) are uniquely positioned to deliver margin expansion and robust cash generation for equity investors.