

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Palm oil is an important export commodity for Indonesia, because it can contribute to the national economy and community development around palm oil plantations. However, fluctuations in the price of palm oil can affect the welfare of the people who depend on these plantation activities. An increase in the price of palm oil prices can increase the income of palm oil farmers and can also have an impact on the welfare of the surrounding community. An increasing in the palm oil prices can also encourage investment in the palm oil plantation sector and potentially increase employment, which in turn can also improve the welfare of the people in the region. However, given that palm oil is also produced and consumed in many countries, the palm oil prices can be affected by international factors such as global supply and demand, competition, and changes in international trade policies. The internal policies such as changes in tariffs, incentives and trade restrictions can also affect the fluctuation of palm oil prices.

If the price of fresh palm oil fruit bunches is expensive, then the money that be earned by the palm oil farmers from the selling of the entire harvest that they picked during three times a month will be able to adequately and adequately meet the needs of the palm oil farmers families. However, on the other hand, if the price of fresh fruit bunches of palm oil are falls, so that the income from harvesting of fresh fruit bunches for three times of harvest will not be able to meet the needs of palm oil farmers families.

In this situation, the government's role is crucial for keeping an eye on palm oil prices, coordinating efforts to boost the added value of palm oil products in a sustainable way, and educating farmers on how to improve crop quality and production.

The level of income received by the palm oil growers is impacted by the significant volume of products produced during harvesting. Therefore, oil palm

farmers must focus on how to increase production and high fruit quality. As a result, they must provide their plants with the best fertilization and care possible in order to achieve good results, perfect growth, and maximum yields, which will increase their income. The palm oil farmers' income is significantly impacted by the price of palm oil and the size of their field because a high price will enhance their income. Contrarily, when prices are low, palm oil farmers' revenue will decline. Additionally, while palm oil farmers' income is higher when they have huge tracts of land dedicated to their crop, it is also lower when they have a smaller tract of land. This is a result of the larger plantations harvesting more often.

According to Fitri Nurfatriani add all (2022) Palm oil is considered the main commodity in supporting the Indonesian economy. In addition, Indonesia is the largest palm oil producer in the world. In 2019, it will generate large amounts of foreign exchange, estimated at USD 25.38 billion or the equivalent of Rp. 359.14 trillion. The palm oil sector contributes more than 14% of the country's total non-oil and gas export foreign exchange earnings, playing an important role in boosting domestic economic activity. The sector builds food security and energy sovereignty through a palm oil-based biodiesel program that will help the country reduce its dependence on oil imports and achieve its 2025 renewable energy targets. Palm oil plantations and industries absorb around 4.2 million direct workers and 12 million indirect workers, while smallholder plantations absorb 4.6 million workers. The palm oil industry has survived the COVID-19 pandemic, continuing to provide jobs. Palm oil plantations and industries have developed rapidly, spread over more than 200 districts. They produce fresh fruit bunches (FFB), crude palm oil and palm kernel oil, and biomass, generating economic benefits for central and local governments.

According to Risky Sobari add all (2022) Palm oil is an important industrial plant producing cooking oil, industrial oil, and fuel, plantations generate huge profits so that many forests and old plantations are converted into oil palm plantations. Indonesia is the largest producer of palm oil in the world. In Indonesia, the spread of palm oil is in the regions of Aceh, North Sumatra, Java,

Kalimantan and Sulawesi and so on. The expansion of oil palm plantations is still the mainstay of increasing CPO (crude palm oil) production in Indonesia. The underdeveloped system of large plantations has resulted in deep poverty and intensified oppression. who are protected and stipulate special security treatment. this policy increasingly farmers experience land grabbing and the burden of life is getting heavier, due to the backward plantation system. Due to the fact that the prices on the international market must decide their revenue, smallholder oil palm growers are living in an unstable economic environment. The community and oil palm farmers are faced with a challenge when trying to provide for their families because of fluctuations in the price of oil palm fruit. At the beginning of 2015 the price of oil palm fruit commodities witnessed a considerable fall which had a detrimental impact on the economy of oil palm plantation growers. They engage in activities to cope with the pressures on their finances in this situation, and some are even prepared to hoard their palm fruit until the price of palm oil increases.

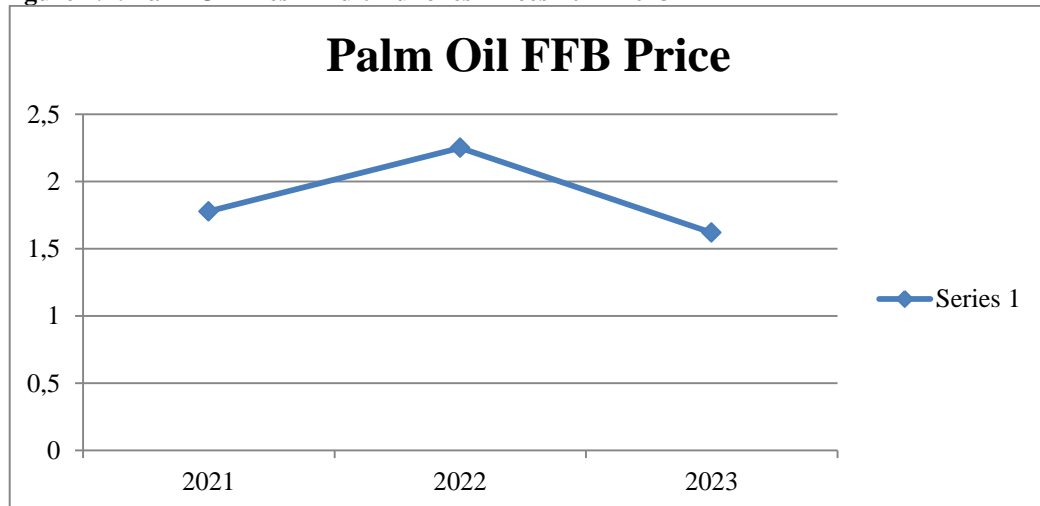
According Nisa Nurjannah Sukowat (2022) Palm oil growers must deal with the uncertain situation of annual price swings in oil palm fruit. The risk will always be avoided by the palm oil growers who are thought to be risk averse. According to the Lucas model, variations in oil palm fruit cost welfare. The producer price is incredibly low, at less than 1%. This demonstrates that stabilizing oil palm fruit prices will only enhance farmers' sales revenue by less than 1%. This indicates that there is virtually little welfare benefit from minimizing oil palm fruit price swings. Therefore, it does not appear that changes in the price of oil palm fruit pose a significant threat to Indonesian oil palm producers.

The palm oil prices often fluctuate, some of the palm oil farmers choose to look for side jobs if they are not looking for side jobs impact on his family's economy. Side jobs carried out by the palm oil farmers are traders, public sector, ranchers, craftsmen, and other professions. Changes in palm oil prices and income received by the palm oil farmers will affect the welfare level of farmer palm oil.

The initial data graphs presented in this proposal provide a visual overview of key aspects relevant to the palm oil industry. This data is obtained

through surveys, field research, or reliable primary and secondary data sources. This graph reflects the trends, comparisons, or distributions of variables that are important in the context of this study.

**Figure 1.1: Palm Oil Fresh Fruit Bunches Prices 2021-2023**



Source : Dinas Perkebunan Kabupaten Bengkalis (2023)

In recent years there has been a deliberate negative stigma (black campaign) in blow to suppress the palm oil industry by the European Union and Western countries. This resulted in the decline of the domestic palm oil industry, especially in tides receding price of oil palm fresh fruit bunches (FFB) sold by farmers to PERON or Company. In Figure 1 based on the data obtained, it explains that the average FFB/kg price in the domestic market in the 2021-2023 period fluctuated in 2021, which was Rp.1.778/kg FFB; in 2022 amounted to Rp. 2.251/kg FFB; and in 2023, which is Rp. 1620/kg FFB.

It's critical while conducting research to select subjects that are pertinent to current demands and problems. One of the main elements determining the welfare of oil palm plantation growers is the price of oil palm. By being aware of how revenue swings for farmers are impacted by the price of oil palm. Seeing the current phenomenon of fluctuating oil palm prices and the income of oil palm farmers affects the welfare of the people of Bantan sub-district, one of the sub-districts where most of the people have jobs as oil palm farmers.

So the author is interested in researching with the title **"The Influence of the Price of the Fresh Fruit Bunches toward of the Palm Oil Farmers Welfare at Bantan Sub-District Bengkalis"**.

### **1.2 Formulation of the Problem**

Based on the background described, the formulation of the research problem is: How Price of the Fresh Fruit Bunches of Palm Oil affect the Income of palm oil Farmers in Bantan Sub-District Bengkalis?

### **1.3 Purpose of thr Study**

Based on the formulation of the problem above, the purpose of this study are: to identify the influence of the price of the fresh fruit bunches of palm oil toward the palm oil farmers welfare at Bantan Sub-District Bengkalis.

### **1.4 Significance of the Study**

The author hopes that the results of this study can be useful theoretically and practically, including the following:

1. It is used as additional information and input to other studies exploring the same subject on the impact of changes in oil palm prices on the welfare of oil palm farmers.
2. As input for the government at Bantan Sub-District, Bengkalis Regency.

### **1.5 Scope and Limitation of the Problem**

In order to prevent the understanding that emerges from research from being too broad, this research is limited to the following areas:

1. The price of the fresh fruit bunches of palm oil toward the oil palm farmers welfare at bantan sub-district bengkalis.
2. Only oil palm plantation farmers in the Bantan Sub-District region and its surrounds were the focus of this study.

### **1.6 Writing Systems**

To obtain a systematic discussion, the author arranges systematics in such a way that it can show good research results and is easy to understand as follows:

## CHAPTER 1: INTRODUCTION

This chapter 1 will contain the problem background, problem formulation, research objectives, research benefits, scope and problem boundaries and report writing systematics.

## CHAPTER 2: LITERATURE REVIEW

This chapter 2 will contain previous research, theoretical foundations and thinking frameworks that are used as guidelines and references in solving problems.

## CHAPTER 3: RESEARCH METHODOLOGY

This chapter 3 describe the identification of location, time and objects of research, types and sources of data, population and samples, sampling techniques, data collection techniques, data processing techniques, scale measurements, research models, types of research, concept definitions and operational variables, research schedules and budgets.

## CHAPTER 4: RESULT AND DISCUSSION

This chapter 4 describes the test results, discussion and limitations of the research results, the discussion of the results obtained is made in the form of theoretical explanations, either qualitatively, quantitatively or statistically.

## CHAPTER 5: CONCLUSION AND SUGGESTIONS

This chapter 5 describes the Conclusions and suggestions of the research that has been carried out.