

## Cooking Palm Oil Price Control Policies in Indonesia: Abu Yusuf's Islamic Economic View

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**Abstract:** This study aims to determine the views of Abu Yusuf's Islamic economy on the policy of controlling cooking oil prices in Indonesia. The research method used is a qualitative research methodology with a library research approach. The results show that the market mechanism in Islam is free without any intervention. This means that the price in the market is determined by the level of demand and supply that is fair (fair price). However, the Government can intervene in the market price when there is market distortion. So that when cooking oil prices are expensive and scarce due to market distortions, the Government must intervene to control prices so that public welfare is achieved. So in this study, it can be concluded that the Government must intervene in prices when market distortions occur.

**Keywords:** government policy, price control, cooking oil, Abu Yusuf.

**Abstrak:** Penelitian ini bertujuan untuk mengetahui pandangan ekonomi Islam Abu Yusuf terhadap kebijakan pengendalian harga minyak goreng di Indonesia. Metode penelitian yang digunakan adalah metodologi penelitian kualitatif dengan pendekatan kepustakaan (*library research*). Hasil penelitian menunjukkan bahwa mekanisme pasar dalam Islam bersifat bebas tanpa adanya intervensi. Artinya harga di pasar ditentukan oleh tingkat permintaan dan penawaran yang wajar dan adil (*fair price*). Namun, pemerintah dapat mengintervensi harga pasar ketika terjadi distorsi pasar. Ketika harga minyak goreng mahal dan langka akibat distorsi pasar, pemerintah harus turun tangan untuk mengendalikan harga agar kesejahteraan masyarakat tercapai. Maka dalam penelitian ini dapat disimpulkan bahwa pemerintah harus melakukan intervensi harga pada saat terjadi distorsi pasar.

**Kata Kunci:** kebijakan pemerintah, pengendalian harga, minyak goreng, Abu Yusuf.

### INTRODUCTION

The last few months have shown that there are price fluctuations in crude palm oil (CPO). The price of crude palm oil (CPO) scored an all-time high at the level of 8,000 Malaysian ringgit (RM), or around US\$1,900 per metric ton (MT)

(Primadhyta, 2022). CPO price fluctuations in the world impact domestic CPO price shocks. The increasing price of cooking oil is strongly influenced by the increasingly expensive international oil prices (Timorria, 2021). Moreover, the Food Task Force found that individuals deliberately stockpiled cooking oil, disrupting the cooking oil distribution chain in the market (Ratriani, 2022). This condition makes the price of domestic cooking oil more expensive.

Until now, it was cooking oil is still a rare item. The increase in cooking oil prices has occurred since 2021 and has not yet been resolved. Starting from November 2021, branded packaged cooking oil price has increased to Rp 24,000 per litre (Ratriani, 2022). Finally, On February 1, 2022, the Government issued a one-price policy for cooking oil (Catriana, 2022). With the Regulation of the Minister of Trade Number 06 of 2022 concerning the Determination of the Highest Retail Price for Palm Cooking Oil, the price of cooking oil has finally decreased. However, after the price of cooking oil was set from Rp 11,500 to Rp 14,000 per liter, what happened was that the availability of cooking oil in the market was getting scarcer (M. C. Anwar, 2022). And oddly enough, after the Government officially revoked the policy on the highest retail price (HET) for palm cooking oil, the availability of cooking oil in the market was again abundant at an expensive price (Purba, 2022).

Maintaining the stability of cooking oil prices is one of the Government's policy programs. The Government must be able to meet the community's needs by ensuring the price of cooking oil is cheap and affordable (Kemenko Perekonomian, 2022). It is essential to control the price of cooking oil because it concerns the interests of many people. The results of the National Socio-Economic Survey conducted by BPS show that consumption of palm cooking oil at the household level during the 2015-2020 period increased 2020 by 11.58 liters/capita/year (Rizal, 2022).

In Islamic economics, the market has an essential position in the economy. Because in the market, people can carry out legal transactions to consume goods/services (Hikmahyatun, 2019). The equilibrium price in the market will be achieved if economic activity is moral. The market mechanism in the Islamic

economy is free without any intervention (Parakkasi & Kamiruddin, 2018). This means that the price in the market is determined by the level of demand and a reasonable supply (fair price). Prices in the market are according to the will of Allah SWT or according to the law of supply and demand (invisible hands) (Effendi, 2021). And the Government may intervene in the market when there is a deviation in the market (market distortion) (Wahid, 2017).

Islamic Economics thinkers always try to respond to the economic challenges of their time, guided by the teachings of the al-Quran, al-Hadith, ijtiḥad and empirical experience (Abdullah, 2010). Islamic economics focuses on fulfilling needs, justice, efficiency, growth and freedom (Shidqi, 2009). One of the leading Islamic economic thinkers who focuses on the theory of price mechanisms in the market is Abu Yusuf. (Karim, 2012; Mukaromah & Rizal, 2021). Based on the discussion above, this study aims to determine the views of Abu Yusuf's Islamic economy on the policy of controlling cooking oil prices in Indonesia.

## **LITERATURE REVIEW**

### **Biography of Abu Yusuf**

Abu Yusuf or Ya'qub bin Ibrahim bin Habib al-Ansari al-Jalbi al-Kufi al-Baghdādi was born in 113 H/731/732 AD in Kufa and lived in Baghdad, and died in 182 H/798 M. He is from Bujailah tribe. His family is called Anshori because, from his mother's side, he still has ties to the Anshori (Havis, 2016). Abu Yusuf studied Fiqh from Muhammad ibn Abdurrahman ibn Abi Laila. Furthermore, Abu Yusuf studied with Imam Abu Hanifah, the founder of the Abu Hanafi school, for 17 years (Syamsuri & Prastyaningsih, 2018).

Abu Yusuf was diligent in compiling books discussing the science of Fiqh, which was the first book in circulation at that time. So, it is not surprising that Abu Yusuf's Fiqh books and the Hanafi Madhab of thought became a reference for scholars and Muslims. This phenomenon impacts the spread of the name Abu Yusuf along with the spread of the Hanafi Madhab. Abu Yusuf became a pioneer in spreading and developing the Hanafi Madhab (Santoso & Muttaqin, 2015).

In 775 AD - 785 AD, Abu Yusuf was appointed a judge in East Baghdad, and Abu Yusuf's popular nickname was Qadi al-Qudhah (the supreme judge). Abu Yusuf is a scholar with a breadth of jurisprudence and a solid and consistent scientific personality (Havis, 2016). Some of Abu Yusuf's writings are 1) al-Jawami', 2) ar-Radd'ala Siyar al-Auza'i, 3) al-Atsar, 4) Ikhtilaf Abi Hanifah wa Ibn Abi Laila, 5) Adab al-Qadhi, 6) al-Kharaj (Karim, 2012).

Al-Kharaj is not the first book to discuss taxation issues (Karim, 2012). Kitab Al-Kharaj discusses taxation and sources of state revenue, such as ghanimah, fai, kharaj, ushr, jizyah and sadaqah (Al-Qur'an dan Hadis) dan aqliah (rational). In general, the book of Al-Kharaj contains issues of taxation, management of income and public spending. Kitab Al-Al-Kharaj describes efforts to build a financial system easy to implement by Islamic principles (Tilopa, 2017).

### **Islamic Economic Thought Abu Yusuf**

Abu Yusuf's Islamic economic thought can be seen comprehensively in the book of al-Kharaj. In general, the book of Al-Kharaj discusses issues of taxation, management of income and public spending. Al-Kharaj describes Islamic principles' efforts to build an easy-to-implement financial system (Tilopa, 2017). The main ideas of Islamic economics Abu Yusuf 1) The state and economic activity, 2) The theory of taxation, 3) The price mechanism in the market (Janwari, 2016).

#### **1. Countries and Economic Activities**

According to Abu Yusuf, the Government's main task is to realize and ensure the welfare of the people. The Government needs to meet the community's needs by developing various projects oriented toward the general welfare. Infrastructure development will increase productivity, welfare and economic growth (Karim, 2012).

The main focus of Abu Yusuf's thinking is on public finance issues. According to Abu Yusuf, to increase state income is to build infrastructure and agricultural irrigation (Nurseha, 2018). The Government is obliged to clean up old canals, build new ones, and build dams to increase agricultural output and the

economy (Karim, 2012). The Government must be able to take advantage of arid land that is not planted by giving the land to someone willing to manage it, and the Government is allowed to collect taxes on land managers (Mukaromah & Rizal, 2021). According to Abu Yusuf, to improve general welfare, natural resources such as; water, grass, etc., should not be controlled by individuals but must be controlled by the state, and the results are used for the community (Karim, 2012).

The distribution of state wealth must be done fairly and equitably, it should not be controlled by a handful of people (Sifa', 2020). For this reason, the state needs efficient, honest, disciplined, firm, and responsible administrative officers. Therefore, the state must appoint honest and trustworthy officials to carry out their duties (Karim, 2012).

## **2. Tax Theory**

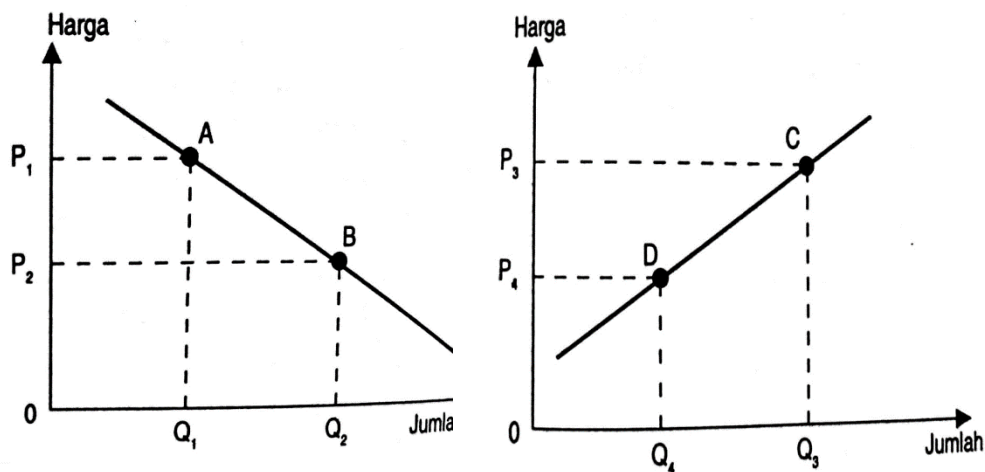
Abu Yusuf has laid down clear principles in taxation, such as; the ability to pay, the provision of slack time for taxpayers, and the centralization of policy-making in tax administration. Abu Yusuf recommended that the Government take a share of agricultural products instead of charging rent from agricultural land. Abu Yusuf places more emphasis on the application of the Muqasamah system than the Misahah system because this is more equitable. The implementation of the Muqasamah system will encourage farmers to increase agricultural production, and in the end, state income will also increase (Karim, 2012).

## **3. Price Mechanism in Market**

Abu Yusuf is against all forms of price intervention in the market. This opinion is based on the hadith of the Prophet, which explains that the high and low prices are Allah's provisions which no one can intervene.

Abu Yusuf said in the book *Kitab al-Kharaj*, "There is no certain limit about cheap and expensive that can be ascertained. There is something that regulates it. The principle is unknown. Cheap is not because of the abundance of food, nor is it expensive because of food scarcity. Cheap and expensive are the provisions of Allah. Sometimes food is plentiful but still expensive, and sometimes food is very little but cheap." (Nurseha, 2018).

Abu Yusuf criticized the popular opinion about the inverse relationship between supply and price. Prices are not only influenced by supply but are also influenced by the strength of demand or purchasing power. Expensive and cheap are not always related to a decrease or increase in the amount of production, but other variables affect prices besides supply, such as; the amount of demand, the amount of money in circulation, hoarding of goods, or all of these things (Mukaromah & Rizal, 2021). Look at the following curve:



**Figure 1:** Demand and Supply Curves (Price Change Curve)

P indicates the high and low prices (price), and Q indicates the number of goods or commodities (quantity). According to the demand theory, if P goes up, then Q goes down, and vice versa; if P goes down, then Q goes up. From the curve, it can be concluded that if the price increases ( $P_1$ ), the demand decreases ( $Q_1$ ). And vice versa, if the price falls ( $P_2$ ), then the demand increases ( $Q_2$ ).

According to Abu Yusuf, sometimes the food is abundant ( $Q_3$ ), but the price is still high ( $P_3$ ), and sometimes the amount of food is small ( $Q_4$ ), but the price is still cheap ( $P_4$ ). Abu Yusuf criticized the general opinion that explains the inverse relationship between the price of goods and the number of goods offered. Prices are determined by the level of demand and are also influenced by the level of supply. If the number of goods offered is abundant and the purchasing power of

the people is high, the price of these goods will increase. Vice versa, if the number of goods offered is small, but the purchasing power of the people is low, the price of these goods will decrease (Karim, 2012).

## **RESEARCH METHOD**

The research method used is descriptive qualitative research with content analysis techniques and library research (Rakhmat, 1999). Literature study is a data collection method directed at searching for data and information through documents such as written documents, photographs, pictures, and electronic documents that can support the writing process. A content analysis approach is used to analyze the manuscript and question its content with experts in their field.

## **RESULT AND DISCUSSION**

### **Abu Yusuf's Islamic Economics View on Price Control in the Market**

The market structure is divided into a perfectly competitive market and an imperfect competition market (Hidayatullah, 2019). A perfect competition market is ideal for market participants because market participants can compete fairly without any intervention from anyone. Meanwhile, in an imperfect competition (monopoly) market, market participants can manipulate the market. (Afiyanti, 2020).

Producers, consumers, distributors, and the Government must synergize well so that market participants benefit from each other (A. Z. Anwar, 2014). The Government has a vital role in ensuring a market balance so that the economy can run well. The function of the Government in the market is as a regulator and market supervisor, so that market balance occurs. Market equilibrium is realized if the market price is determined by the natural supply and demand level without market distortion. So the task of the Government is to ensure that the running market applies the principle of justice and prohibits all forms of monopolies and market distortions (Huda, 2016) so that the market can provide maximum satisfaction to all market participants.

Abu Yusuf is the first generation to discuss prices and market mechanisms (Sifa', 2020). Abu Yusuf argues that high prices do not mean a shortage of goods, and low prices do not mean that goods are abundant, but other variables determine the price level (Suprehaten, 2010). Abu Yusuf opposed government intervention in setting prices. The Government serves as a regulator/referee in the market mechanism. This means that the Government is tasked with ensuring that the prevailing price in the market is fair, obtained from a standard market mechanism (based on the level of demand and supply), not a monopoly or market distortion. (Hendra, 2016). The Government must prohibit hoarding, monopoly, and other market distortions so that there is an equilibrium price in the market, a price determined by the level of demand and supply (Karim, 2012).

### **Cooking Oil Price Control Policy in Indonesia According to Abu Yusuf's Islamic Economic View**

Until now, it was cooking oil is still a rare item in the market. The increase in cooking oil prices has occurred since 2021 and has not yet been resolved. Starting from November 2021, branded packaged cooking oil price has increased to Rp 24,000 per litre (Ratriani, 2022). Increasing cooking oil prices are strongly influenced by increasingly expensive international oil prices (Timorria, 2021). Moreover, the Food Task Force found that individuals deliberately stockpiled cooking oil, disrupting the cooking oil distribution chain in the market (Ratriani, 2022). This condition makes the price of domestic cooking oil more expensive.

It is essential to control the price of cooking oil because it concerns the interests of many people. The National Socio-Economic Survey conducted by BPS shows that consumption of palm cooking oil at the household level during the 2015-2020 period increased 2020 by 11.58 litres/capita/year (Rizal, 2022). Maintaining the stability of cooking oil prices is one of the Government's policy programs. The Government must be able to meet the community's needs by ensuring the price of cooking oil is cheap and affordable (Kemenko Perekonomian, 2022). The following are some government policies to control cooking oil prices in Indonesia (Timorria, 2022).

1. One price policy is IDR 14,000.



The Government sets the price of subsidized cooking oil at Rp. 14,000, which is distributed to modern retailers and traditional markets. The Government will provide cooking oil of Rp. 14,000 per litre by covering the difference in the price of cooking oil to meet the needs of households, micro industries, and small industries.

2. Domestic Market Bond (DPO) and Domestic Price Bond (DPO) policies.

The Ministry of Trade has begun to oblige exporters of crude palm oil (CPO) products and their derivatives to supply products to the domestic market through the DMO mechanism at special prices or DPO. This policy was implemented to ensure sufficient domestic supply and stability of cooking oil prices.

3. Limited ban on the export of CPO and its derivatives.

This policy is contained in the Regulation of the Minister of Trade (Permendag) No. 2/2022 concerning Amendments to Permendag No. 19/2021 on Export Regulation Policy. In point XVIII, it is written that the 9 HS codes of products in the categories of CPO, RBD palm oil, and used cooking oil must have an export approval (PE) for applying loading goods for export.

4. Latest HET (Highest Retail Price).

The Government made adjustments to the HET for cooking oil, effective February 1, 2022, including VAT, which includes: Bulk Rp11,500, Simple Rp13,500, Premium Rp14,000.

Cooking oil is expensive and scarce for the following reasons; 1) There is an increase in the demand for CPOs to fulfil the biodiesel industry in line with the implementation of the B30 policy. 2) Logistical disruptions during the Covid-19 pandemic, such as the reduced number of containers, trucks, and ships. 3) There are elements/mafia who deliberately hoard cooking oil and do not distribute it to the market. 4) There is panic buying; people buy cooking oil in larger quantities than their usual needs, causing the number of products to be dwindling (Ratriani, 2022).

Recently, the police found tens of thousands of litres of cooking oil piled up, around 2,000 cartons or 24,000 litres of cooking oil in Banten and Palu

(Patnistik, 2022). Then the Attorney General's Office (Kejagung) arrested four cooking oil mafias. One of the suspects is a high-ranking official from the Ministry of Trade, and the other three are big bosses of palm oil raw materials and cooking oil producers (Patnistik, 2022; Waseso & Laoli, 2022). This phenomenon confirms that the cooking oil mafia is real and exists.

Based on the facts above, it can be concluded that one of the causes of the scarcity and high price of cooking oil in the domestic market is due to market distortions, such as hoarding and monopolies carried out by the cooking oil mafia. This condition causes the welfare of the community to decline. The Government has a vital role in ensuring that the market is healthy (market balance) so that the economy can run well.

According to Abu Yusuf, the function of the Government in the market is as a regulator, and market supervisor so that the market runs according to the principle of justice in the economy. A fair market is a market that runs according to the natural level of demand and supply without the intervention of those who control the market. So that the Government's task is to ensure that the running market applies the principle of justice and prohibits all forms of monopoly and market engineering. So that in the end, the market can provide maximum satisfaction to all market participants.

According to Abu Yusuf's view of Islamic economics, the market mechanism in Islam is free without any intervention. This means that the price in the market is determined by a fair and fair level of demand and supply. However, the Government may intervene in the market when there is market distortion. So when cooking oil prices are expensive and scarcely caused by market distortions, the Government must intervene in cooking oil prices to ensure people's welfare. So in this study, it can be concluded that the Government must intervene in prices when there is market distortion.

## **CONCLUSION**

One of the causes of the scarcity and high price of cooking oil in the domestic market is due to market distortions, such as hoarding and monopolies by the cooking oil mafia. This condition causes the welfare of the community to

decline. The Government has an important role to ensure that the market balance occurs, so that the wheels of the economy can run well. According to Abu Yusuf's view of Islamic economics, the market mechanism in Islam is free without any intervention. This means that the price in the market is determined by a fair of demand and supply. However, the Government can intervene in the market price when there is market distortion. So that when cooking oil prices are expensive and scarce due to market distortions, the Government must intervene to control prices so that public welfare is achieved. So, in this study it can be concluded that the Government must intervene in prices when market distortions occur.

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