

EXECUTIVE SUMMARY

In order to diversify the types of oil palm products offered to the domestic market or international market, PT. Perkebunan VII (Persero) or so called PTP VII was willing to establish fatty acids factory to produce fatty acids and glycerine from crude palm oil (CPO) as raw materials. Furthermore, PTP VII as the largest producer of CPO in Indonesia, has been able to maintain the company's competitiveness.

The market for fatty acids and glycerine are the EEC countries, USA and Japan. In 1988, the total world's market of fatty acids was US \$ 744.43 millions and had an average yearly growth of 16.2%. The world's total market for glycerine in 1988 was US \$ 156.23 millions and had an average yearly growth 4.9%. The major importers of fatty acids and glycerine in the world are Germany, United Kingdom, USA, France and Japan.

The production of CPO in Indonesia in 1991 reach to 2.7 millions tons, at a growth of 12% per year. From the total production of Indonesia that mentioned above, PTP VII produced 329,000 tons CPO. About 72% of total CPO production of PTP VII was produced by estates and mills located in North Sumatera (near to Belawan).

The proposed factory is designed to produce fatty acids as the main product and glycerine as a by-product. 20,000 M2 of land was required for the factory building and other facilities. The total member of employees are 84 persons as direct and indirect labour and personnel for management and administration positions. All equipment and machineries were imported from Germany. The factory was designed to process 100 tons CPO per day operation at 100% efficient working capacity. However, a full production capacity can be expected in the third year of operation due to several factors such as skill of the workers, efficiency of the equipment and the market potential. The capacity from the first to the third year of operation was calculated to be 60%, 70% and 80% respectively.

The total investment of Rp 30,075 millions would be funded by shareholder's equity (40%) and banking loans (60%). The internal rate of return (IRR) was 40.67%, the net present value (NPV) was Rp 5,062 millions and the payback period of the project was 4 years 2 months. So the project had to be regarded as a very interesting and profitable one.

It is shown that the proposed fatty acids factory will be "financially feasible" in calculated scenarios.