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Indonesia

Sugar

Semi-Annual

2000

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Report Highlights:

FAS/Jakarta sugar production estimate is revised upward to 1.6 mmt in MY00, meanwhile we expect MY01 production to drop back down to around 1.5 mmt. Harvested area is down slightly from 341,000 ha in MY00 to 340,000 ha in MY01 as farmers switch to higher profit, shorter duration food crops. Cane yields are low at 68.9 mt/ha in MY00 and are forecast to decline to 62.9 mt/ha in MY01. On the bright side, average sugar recovery rates are improving from 6.8 percent in MY00 to 7.0 percent in MY01.

Consumption continues to increase in line with improving economic conditions and rapid development of the food and beverage industries. Total sugar consumption is estimated at 3.2 mmt in MY00 and forecast to rise to 3.5 mmt in MY01. Although tariffs have been in place since February 2000, total imports have increased from 1.7 mmt in MY99 to 1.9 mmt in MY00, due to lack of industrial quality sugar needed by the food industries. However, we believe MY01 imports will fall to 1.6 mmt due to the relatively high beginning stocks.

General Summary

Indonesia is facing a number of obstacles as far as increasing its sugar production is concerned. Inefficiency in state-run sugar mills due to poorly maintained facilities, lack of cane supply and low cane quality have caused many mills to close (mainly in Java). This contributes to lower cane harvested area. In addition, land ownership disputes by the local people against both the private and state-run mills are disrupting harvest and milling operations. Farm credit is also difficult to obtain and when attained, the distributions are usually late. Although private sugar mills have better sugar recovery rates and yield compared to the state-run sugar mills, they represent only 35 percent of total sugar production. As a result, domestic sugar cannot compete in price and quality with imports. In the past two years, sugar imports grew from 0.9 mmt in 1998 to 1.9 mmt in MY00 but should level off in MY01 to 1.6 mmt. Also, there has been no expansion in the sugar industry since the economic crisis started in mid-1997.

Despite an increase in the sugar procurement price from Rp. 2,500/kg to Rp. 2,600/kg this year, relatively high input prices made growing cane unattractive for farmers. This resulted in declining area and cane yields which in turn caused a drop in cane production. However, sugar production actually increased from 1.5 mmt in MY99 to 1.6 mmt MY00 because of a big increase in the sugar recovery rate. An uncertain credit situation is causing us to forecast a drop in cane production and thus sugar production to 1.5 mmt in MY01.

The Government of Indonesia (GOI) has announced a Rp. 23 billion credit for cane farmers for planting season 2000/2001 with a 16% interest rate (10% of the interest will be subsidized by the GOI). Credit is being distributed by the state bank - Bank Rakyat Indonesia (BRI) beginning in August 2000. Under this regulation it is hoped that state-run mills and farmers involved in the credit scheme will work closely to improve farm management practices, thus improving the quality of their cane and the efficiency of their milling operations.

A second proposed credit program would give cane farmers access to a Rp. 350 billion special credit called KKPA-TR or Kredit Koperasi Primer untuk Anggota-Tebu Rakyat provided by the government. This credit program is aimed at financing land preparation and planting cane but unfortunately, up to now it has not yet been implemented. The interest rates would be the same as the KUT, i.e., 16 percent per annum.

Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		05/1998		05/1999		05/2000
Area Planted	400	400	0	390	0	380
Area Harvested	380	378	0	341	0	340
Production	27750	27180	0	23500	0	21400
TOTAL SUPPLY	27750	27180	0	23500	0	21400
Utilization for Sugar	27750	27180	0	23500	0	21400
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	27750	27180	0	23500	0	21400

Note: Unit in 1,000 Ha. and 1,000 MT.

Data in "Old" column is FAS/Washington data.

Centrifugal Sugar

PSD Table						
Country:	Indonesia				Unit: 1000 MT	
Commodity:	Centrifugal Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		05/1998		05/1999		05/2000
Beginning Stocks	520	520	994	908	966	1240
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1492	1492	1489	1600	1450	1500
TOTAL Sugar Production	1492	1492	1489	1600	1450	1500
Raw Imports	1401	1315	1200	1407	1200	1200
Refined Imp.(Raw Val)	387	387	400	542	400	400
TOTAL Imports	1788	1702	1600	1949	1600	1600
TOTAL SUPPLY	3800	3714	4083	4457	4016	4340
Raw Exports	6	6	17	17	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	6	6	17	17	0	0
Human Dom. Consumption	2800	2800	3100	3200	3200	3500
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2800	2800	3100	3200	3200	3500
Ending Stocks	994	908	966	1240	816	840
TOTAL DISTRIBUTION	3800	3714	4083	4457	4016	4340

Note: Data in "Old" column is FAS/Washington data.

Production

Based on the current situation where pest problems are minor and weather is reportedly favorable, the MY00 (May 99-April 00) cane production estimate was increased to 23.5 mmt from the previous estimate of 21.4 mmt (ID0021). This is still 13.5 percent below MY99 production of 27.2 mmt due mainly to lower area harvested. Deteriorating farm management practices and financial difficulties faced by the sugar industry led to a forecast for MY01 cane production of 21.4 mmt, unchanged from the previous estimate. Due to low domestic prices and competition from imported sugar, farmers are shifting from planting cane to crops that generate higher returns (especially rice or horticultural crops). Therefore the estimate of area planted to cane in MY00 is down 2.5 percent from MY99 and is forecast to be even a bit lower to 380,000 ha. for MY01.

Harvested area declined relatively more than planted area due to difficulties in getting timely

farm credit or KUT-Kredit Usaha Tani for the purchase of inputs and farmers simply did not tend to plant maintenance. The re-growth cultivation system (known as the “ratoon” system) combined with planting of inferior cane varieties also resulted in low cane yields. Cane yield in MY00 is estimated at 68.9 mt/ha, around four percent lower than the level in MY99 (71.9 mt/ha). Assuming the credit problems continue, FAS/Jakarta forecasts MY01 cane yields will remain low, at around 62.9 mt/ha.

One bright spot is that despite less intensive crop management caused by the high cost of inputs, the estimated cane recovery rates or rendemen (the volume of sugar produced from one ton of cane) in MY00 actually increased to 6.8 percent from 5.5 percent in MY99 due to favorable weather. This boosted cane sugar production to 1.6 mmt, an increase of 108,000 mt over MY 99. Assuming weather continues to be favorable, cane recovery rates for MY01 are expected to increase slightly to 7.0 percent but overall cane sugar production is forecast to fall 1.5 mmt due to the lower cane yield.

Although the private mills contribute only around 35 percent of total sugar production, their higher efficiency helped sugar yields at the national level to improve from 4.0 mt/ha in MY99 to an estimated level of 4.7 mt/ha in MY00. Assuming that cane area remains stagnant, prices do not recover much, and credit remains difficult to obtain, we forecast a further decline in yield to 4.4 mt/ha in MY01.

Consumption

Tremendous growth in the food and beverage industries in line with improving economic conditions pushed sugar consumption to 3.2 mmt in MY00, around 14 percent higher than the level in MY99. Post forecasts MY01 sugar consumption to increase to 3.5 mmt to reflect increasing population and continued growth in the food industry. However, the rate of growth is forecast to decline a bit as sugar prices are expected to increase.

The sugar industry is vertically integrated - including production, distribution, stocks maintenance and management - as is characterized by both state-owned and private sugar mills. Distribution is carried out by private mills through large distributors and by state mills through a tender process.

Indonesian mills produce a plantation grade, white sugar called SHS I quality (it is not as white as the refined sugar). The food, beverage and pharmaceutical industries demand a higher quality of industrial grade sugar (refined and/or double refined) which is largely satisfied from imports. The annual demand of industry grade sugar is estimated at around 780,000 mt. Indonesia currently has only one refinery producing industrial grade sugar, i.e., PT. Bermis Madu Sejati located in West Java with a refining capacity of around 150,000 mt/year.

Consumers are increasingly purchasing raw sugar because of the relatively low price compared to refined sugar.

Prices

The average domestic sugar retail price at traditional markets in Jakarta was stable at around Rp. 3,400/kilogram (for SHS I quality) in 2000 compared to imported sugar prices of around Rp. 3,300/kilogram during the same period (July-September) or US\$ 384.4/mt (local) and US\$ 373.1/mt (import) at current exchange rates. Those prices include a myriad of taxes including: value added tax or PPN-BM (10%), PPh or sales tax (2.5%) and a 20 percent import tariff applied on raw sugar and 25 percent for refined sugar.

Stocks

Stocks are mainly in the hands of sugar mills and traders. Ending stocks rose again in MY00 to just over 1.2 mmt, 27 percent higher than MY99 and a whopping 138% over the MY98 level due to a relatively large volume of imports and a moderate increase in production.

Consumption should continue to rise in line with population growth and demand from food industries, while both imports and production are expected to decline. Thus, we are forecasting a significant draw down in stocks to 840,000 mt.

Policy

The GOI is openly concerned about the declining sugar industry and low farmer income and is considering additional efforts to help the domestic industry. Although progress is very slow, several alternatives have been discussed and actions have been taken including the following:

- Presidential Decree: No. 109/2000 dated July 26, 2000: This decree terminates the Indonesian Sugar Council (DGI-Dewan Gula Indonesia) and inaugurates the National Sugar Council (DGN-Dewan Gula Nasional). The DGN is expected to improve the efficiency and productivity of the sugar industry and improve farmers competitive position in the global marketplace. It will include government leaders from the various related ministries, farmer representatives, sugar processors, the consumer protection foundation, distributors, labor unions, as well as government and university researchers.
- Minister of Forestry and Plantation Decree No. 145/KPTS-VII/2000 dated June 7, 2000: This decree increased the price of sugar received by farmers from Rp. 2,500/kilogram to Rp. 2,600/kilogram effective January 1, 2000. This policy was implemented in an attempt to maintain farmer income and encourage greater cane planting.
- Relocation of sugar mills/production: This plan calls for closing down the unproductive state sugar mills (in Java) that do not receive an adequate supply of raw material and/or which are operating with old and inefficient milling equipment and open new mills off-Java. From a total of 59 state and private sugar mills in Indonesia, it is reported that 12 have already been shut down. The plan is to open new state owned mills on the islands of Sumatra, Kalimantan, and Sulawesi. This idea remains controversial considering the high cost, less productive soil conditions, and the negative impact that may result from unemployment on Java. To date no new mills have been opened.
- Raise the import tariff: More domestic protection from sugar imports is under consideration via an increase in the import tariff. Under Indonesia's WTO agreement, Indonesia may impose

up to an 110 percent tariff on sugar. However, its letter of intent with the IMF may limit this effort. Import tariffs will be reviewed every six months by the government and any changes would likely be made in October 2000.

In Indonesia, some cane farmers have developed cane production sharing agreements with the state sugar mills. Under this scheme, up to up to 65 percent of the sugar produced by the mill is returned to the farmers as payment in kind (others just sell their cane and are paid based on the procurement price). Farmers enrolled in this receive 90 percent of their payment in cash at Rp. 2,600/kg, i.e., the current procurement price and 10 percent in kind.

The GOI continues to subsidize cane farmers by authorizing sugar mills to pay cane farmers based on the cane volume they bring to the mill and on the extraction rates produced by their cane. The current regulation (Decree of the Minister of Forestry and Plantation No. 145/KPTS-VII/2000 dated June 7, 2000) has set the floor price at Rp. 2,600/kilogram retroactive to January 1, 2000. The current floor price pertains to sugar produced during year 2000. State sugar mills are claiming losses due to competition with cheaper imported sugar. For comparison, current retail domestic sugar prices (quoted September 28, 2000 in Jakarta traditional markets) are Rp. 3470/kg or US\$ 392.3/mt at the current exchange rate (local) vs. Rp. 3388/kg or US\$ 383.0/mt (import). In supermarkets in Jakarta, sugar prices are slightly higher, i.e., Rp. 3450/kg for local sugar and Rp. 3460/kg for imported sugar.

Trade

Import Trade Matrix

Import Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Apr		Jan-Apr
Imports for	1999		2000
U.S.	0	U.S.	0
Others		Others	
Thailand	255	Thailand	405
Pakistan	189	Brazil	74
Brazil	90	United Arab Emirate	28
United Arab Emirate	50	United Kingdom	24
United Kingdom	23	Australia	24
China	20	Malaysia	17
Korea	19	China	11
Belgium/Luxemburg	17	Singapore	10
Singapore	16	Korea	10
Australia	10	Taiwan	6
Total for Others	689	Total for Others	609
Others not listed	30	Others not listed	29
Grand Total	719	Grand Total	638

Import Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	May-Apr		May-Apr
Imports for	MY1998/1999		MY1999/2000
U.S.	14	U.S.	2
Others		Others	
Thailand	672	Thailand	850
Brazil	273	Brazil	468
Pakistan	206	United Arab Emirate	127
China	102	China	117
United Arab Emirate	72	Australia	89
Australia	67	United Kingdom	82
Korea	55	Pakistan	48
Mexico	46	Malaysia	36
Singapore	44	Singapore	26
Malaysia	43	Korea	22
Total for Others	1580	Total for Others	1865
Others not listed	108	Others not listed	82
Grand Total	1702	Grand Total	1949

Export Trade Matrix

Export Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	May-Apr		May-Apr
Exports for	MY1998/1999		MY1999/2000
U.S.	0	U.S.	0
Others		Others	
Rep. of Korea	6	Japan	10
		Korea	7
Total for Others	6	Total for Others	17
Others not listed	0	Others not listed	0
Grand Total	6	Grand Total	17

With the recent relatively low world sugar price, sugar can be imported and sold at retail below the price of domestically produced sugar. The domestic industry has complained that unfair trading is going on and that other countries are "dumping" their sugar into the Indonesian market. But in fact, it seems to be more a function of the lower efficiency and higher cost of domestic sugar production and milling in Indonesia that has led to the problem.

According to official trade data, imports reached over 1.9 mmt in MY00 (May-April), 12 percent higher than the same period in MY99 (1.7 mt including around 1.3 mmt raw sugar and 387,000 mt refined sugar). During the period Thailand was the main supplier shipping around 850,000 mt (44% of total imports), followed by Brazil 468,000 mt (24%), United Arab Emirates 127,000 mt (7%) and China 117,000 mt (6%). Imports are actually forecast to decline to around 1.6 mmt in MY01 given the relatively high beginning stocks and assuming stable production. In anticipation of large demand for end of year festivities (Christmas, Idul Fitri and New Year) the MY01 import forecast is 1.6 mmt, unchanged from our previous forecast, assuming no changes in import tariffs are implemented.

There is intense pressure on the government to protect cane farmers by imposing a higher import duty of up to 80 percent (under its WTO agreement Indonesia may impose up to a 110 percent duty). However, if implemented, it is recognized that this could lead to smuggling so the government is currently taking all factors into consideration. Since late 1999, the government also allows food/beverage industries that use sugar as their basic raw material to import sugar duty free.

Taking into consideration the political instability and disturbances in the Special Territory of Aceh, the government exempted the duty on imports of 60,000 mt of sugar to the area for a period of 12 months beginning July 26, 2000. Imports are supposed to be carried out by the local government and/or importers appointed by the head of the local government. The imports should be off-loaded either in Malahayati or Lhokseumawe ports at the rate of about 20,000 mt every 4 months.

Tables

Average Monthly Sugar Retail Prices 1/ (Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	1478	1478	1450	1489	1500	1500	1500	1500	1500	1500	1500	1500
1997	1516	1545	1545	1545	1595	1595	1594	1594	1594	1599	1600	1600
1998	1953	2028	1751	2226	2439	2492	2841	3848	3977	3734	3550	3511
1999*)	3505	3445	3175	2963	2670	2514	2333	2350	2508	2485	2521	2819
2000*)	2755	2627	2248	2617	2573	2901	3355	3433				
% Change	(21)	(24)	(29)	(12)	(4)	15	44	46				

Source: Central Statistics Agency (BPS-Badan Pusat Statistik), Jakarta.

Note: 1) Prices apply to Local Sugar SHS I in traditional Jakarta market. Pct refers to year-to-year percent change.

*) Source: Center for Market Information (PIP), Ministry of Industry and Trade.

Average Monthly Imported Sugar Retail Prices 1/ (Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3519	3477	3140	2815	2551	2433	2243	2285	2448	2443	2483	2768
2000	2708	2598	2440	2535	2503	2841	3243	3203				
% Change	(23)	(25)	(22)	(10)	(2)	17	45	40				

Source: Center for Market Information (PIP-Pusat Informasi Pasar), Ministry of Industry and Trade, Jakarta.

Note: 1) Prices apply to Imported Sugar in traditional Jakarta market. Pct refers to year-to-year percent change.

Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8735	9003	8290	8780			
Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper. Note: - September 2000 exchange rate is quoted for September 29, 2000. - BPS data available up to May 2000.												

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