



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 3/7/2005

GAIN Report Number: ID5003

Indonesia

Grain and Feed

Rice Update

2005

Approved by:

Fred Kessel
U.S. Embassy, Indonesia

Prepared by:

Chris Rittgers/Niniek S. Alam

Report Highlights:

Despite an increase of about 10 percent since last December, local rice prices remain at levels that are typical at this time of the marketing year. Landed prices from traditional Asian suppliers remain above levels required to provide traders with the incentive to attempt to skirt the import ban. The new main crop harvest has commenced in Java, and as new crop deliveries increase in mid to late March, prices are expected to decline.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Jakarta [ID1]
[ID]

Prices

In the first week of March, wholesale prices for low quality rice were about \$310 per ton, representing an increase of about 10 percent since the beginning of 2005, and about a 30 percent increase from lows during the last marketing year. Medium grade rice has experienced similar increases, while higher quality types have been more stable. These price movements are a normal phenomenon during this period of marketing year, as supplies gradually dwindle following the last harvest from the previous marketing year (Nov. '04) and the onset of the next main crop harvest (late Feb '05). This seasonal price increase has been somewhat more pronounced this year as abundant supplies in 2004 resulted in relatively low prices. The new main crop harvest has begun on Java, and as deliveries increase, reaching peak harvest in late March/early April, prices should decline. On March 1, 2005, the GOI increased fuel prices by an average of 30%, but so far this has had no measurable impact on rice prices.

Constructed duty-paid (duty is about \$50/ton) prices from traditional Asian suppliers are still not competitive with local prices. Furthermore, with border officials recently subjecting imports of to increased scrutiny, attempts to skirt the import ban and evade paying the duty are unlikely.

Policy

The GOI continues to monitor prices and the supply/demand situation as input for considering whether the import ban (currently scheduled to remain in effect until 30 June, 2005) should be maintained. If the impending harvest proves to be less than expected, and prices rise, the ban would be removed. However, despite some initial reports that the 2005 crop will be off from last year, arrival of the main crop harvest into the market in mid-March through April is expected to dampen prices, and most market observers believe the ban will be maintained as currently planned. Even after 30 June, if prices and supplies warrant, the ban could be extended.

When trade does resume, imports will face a new higher tariff. On January 1, 2005, the rice import duty was increased from Rp. 430/kg to Rp. 450/kg (the new tariff equates to about \$50 per ton). The new tariff structure covers rough milled and semi-milled rice, fragrant rice, pre-cooked or parboiled rice, broken rice, and rice flour. With the new more comprehensive tariff structure, the GOI is hopeful that import documentation fraud can be reduced. Given the current import ban, the new tariff has had no impact on prices.

On 2 March 2005, a Presidential Decree was issued that set prices that Bulog will pay farmers for rice. The purchase price of wet paddy was increased from 1,230 to 1,330 rp/kg (\$145/ton), while prices for dry paddy and milled rice remained unchanged at 1,765 (\$190/ton) and 2,790 rp/kg (300/ton). The new policy also stipulates that these are prices delivered to mills, rather than at the farm level, as was the previous policy. In theory, should the market drop below these prices, GOI will enter the market and buy rice. In practice, Bulog buys primarily paddy, and will use the 1,330 Rp/kg only as a "reference" price. These are not support prices that Bulog would be required to defend should the market drop below these levels, so the increase in the wet paddy reference price is unlikely to have a significant impact on prices. Bulog purchases only about 10 percent of domestic production. The move was largely symbolic to signal the GOI's support for rice farmers and as a way to demonstrate that the GOI is trying to minimize the impact of higher fuel costs on rice producers. In the first week of March, farmers were receiving about 1,400 rp/kg for wet paddy in central Java.

F:\GAIN\FINAL GAIN Reports\GF\Rice05Mar06.doc