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Indonesia

Sugar

Annual

2006

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Report Highlights:

Sugarcane production and cane sugar output are forecast to increase to 30.15 million tons and 2.2 million tons respectively in 2006/07. Sugar consumption is forecast to grow to 4.1 million tons in 2006/07. Imports are forecast at 1.8 million tons for 2006/07. Inefficient and improperly managed sugar mills hamper for further growth of cane sugar production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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General Summary

The Indonesian sugar industry continues to face a number of fundamental problems. Smallholder farmers, who lack the necessary resources required to invest in improvements for increased productivity, own around 53.5 percent of the sugarcane plantations; another 24.5 percent are owned by state companies, which also require significant improvements and are still operated very inefficiently. In addition, the milling sector, mostly owned by state companies, is also inefficient and needs to be renovated to improve milling capacity. Nonetheless, the higher floor price set by the government is leading to higher sugarcane production, which is forecast to grow to 2.2 million tons in 2006/07. Due to a larger crop, combined with inefficient mills, the mills were strained during the 2005/06 season, leading to a lower recovery rate of 7.2 percent compared to 7.7 percent in 2004/05.

Despite the relatively high average retail prices of sugar in the first quarter of 2006, which were at around Rp. 6,100/kg (US\$ 672.2/MT), consumption for 2005/06 is forecast to increase to 3.85 million tons, and continue growing in 2006/07 in line with population growth. With expectations for growth in domestic production, imports are also forecast to remain steady at 1.8 million tons.

Sugar Cane for Centrifugal

PSD Table						
Country	Indonesia					
Commodity	Sugar Cane for Centrifugal				(1000 HA)	(1000 MT)
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		05/2004		05/2005		05/2006
Area Planted	360	360	375	380	0	390
Area Harvested	345	345	350	360	0	370
Production	26750	26750	25500	29300	0	30150
TOTAL SUPPLY	26750	26750	25500	29300	0	30150
Utilization for Sugar	26750	26750	25500	29300	0	30150
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	26750	26750	25500	29300	0	30150

Note: Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID5008.

Centrifugal Sugar

PSD Table						
Country	Indonesia					
Commodity	Sugar, Centrifugal				(1000 MT)	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		05/2004		05/2005		05/2006
Beginning Stocks	1170	1170	1120	1120	920	1170
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2050	2050	1800	2100	0	2200
TOTAL Sugar Production	2050	2050	1800	2100	0	2200
Raw Imports	800	800	800	1300	0	1400
Refined Imp.(Raw Val)	650	650	1000	500	0	400
TOTAL Imports	1450	1450	1800	1800	0	1800
TOTAL SUPPLY	4670	4670	4720	5020	920	5170
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	0	0	0	0	0	0
Human Dom. Consumption	3550	3550	3800	3850	0	4100
Other Disappearance	0	0	0	0	0	0
Total Disappearance	3550	3550	3800	3850	0	4100
Ending Stocks	1120	1120	920	1170	0	1070
TOTAL DISTRIBUTION	4670	4670	4720	5020	0	5170

Note: Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID5008.

Production

Indonesia produces only white sugar from sugar cane and refined sugar from imported raw sugar. White sugar is aimed for human direct consumption, while refined sugar is reserved for food and beverage industry. Refined sugar may only enter the market should there be a shortage in white sugar supply and only following an instruction from the Ministry of Trade.

Encouraged by a higher floor price of Rp. 3,800/kg (US\$ 418.7/MT) compared to Rp. 3,410/kg (US\$ 375.8/MT) in 2004, sugarcane production is estimated to increase to approximately 2.1 million tons in 2005/06 and is forecast to slightly increase again to 2.2 million tons in 2006/07. Reportedly, production at mills in Southern Sumatra started processing the 2006/07 in early April this year. With larger crops, combined with inefficient milling facilities, mills are being required to run longer, which is leading to a decline in recovery rates.

With 43 State sugar mills and 3 private mills, the island of Java contributes 62 percent of sugar production. In terms of ownership, the state sugar mills contribute 65 percent of sugar

production. GoI has been pursuing an effort to open new sugar cane plantations facilitated with sugar mills in Merauke (Papua), Baturaja (South Sumatera), Banyuwangi (East Java) and South East Sulawesi with a minimum area of 20,000 ha each. A major private company has been preparing a new sugarcane plantation equipped with an integrated sugar factory in South Sumatera with a total capacity of 200,000 tons per year, and is scheduled to start its operation in 2008.

There are four major sugar refineries located in Java with a total capacity of around 2 million tons per year. For 2005/06, Indonesia is expected to produce approximately 1.2 million tons of refined sugar, up from last year's production of 722,000 tons to fulfill growing demand from the food and beverage industry.

Consumption

Fueled by continued demand from the food and beverage industry, sugar consumption is estimated to increase to 3.85 million tons in 2005/06 from 3.6 million tons in 2004/05. Direct consumption of sugar is estimated at 2.75 million tons per year while the remaining 1.1 million tons is consumed by the growing food and beverage industry. Per capita consumption of sugar is estimated at 15 kg per year.

Stocks

Ending stocks are forecast to slightly increase to 1.2 million tons in 2005/06 from 1.1 million tons in 2004/05. Most of the stocks are apparently in the hands of traders.

Prices

The industry has proposed that the sugar floor price (the price received by the farmers) be increased from the current level of Rp. 3,800/kg (US\$ 418.7/MT at an exchange rate of Rp. 9,075/US\$ 1) to Rp. 4,800/kg (US\$ 528.9/MT), but no decision has yet been made. The average retail price of local sugar during 2005 was Rp. 5,763/kg (US\$ 590.6/MT at an average exchange rate of Rp. 9,757/US\$1 in 2005) compared to Rp. 5,932/kg (US\$ 608/MT) of imported sugar. By March 2006, the retail price of local sugar had risen to Rp. 6,165/kg (US\$ 679.3/MT), while the average retail price of imported sugar was up to Rp. 6,235/kg (US\$ 687/MT). It is expected that the price of sugar in the domestic market will decline with start of milling season.

The average price of refined sugar at factory level in 2005 was US\$ 420-430/MT (FOB, excluding the 10% VAT). The price increased to US\$ 540-560/MT in March 2006 to reflect the increase in the international price of raw sugar. The soaring price of raw sugar in the world market has lessened the margin of the refineries and weakened their competitiveness against local white sugar in domestic market.

Trade

To control imports, The Minister of Trade grants import licenses for specific quantities of white sugar to four selected importers, namely: PT. Perkebunan Nusantara IX, X, XI and PT. Radjawali Nusantara Indonesia. Imports are strictly prohibited one month prior to, during and two months after the milling season. The milling season usually starts in May (except for this year that starts earlier in April) and is finished by October. For 2006, the four registered importers were licensed to import 190,000 tons of white sugar that have to be accomplished before the end of March. Another 110,000 tons of white sugar import licenses were granted to Bulog and PT. Perusahaan Perdagangan Indonesia as the holders of Indonesian sugar

buffer stocks that must be delivered by April 06. Only 20,000 tons of the buffer stock imported had been materialized due to the high price of sugar in the international market.

Furthermore, the food and beverage industry indicates a 120% increase in the use of other sweeteners including lactose, maltose, glucose and fructose as a substitute for more expensive refined sugar. In 2005, imports of these substitute sweeteners were 67,000 tons, up from 30,000 tons for the same period previous year.