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Sugar

Annual

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Report Highlights:

Despite the high floor price for sugar, high production costs have hampered the expansion of Indonesia's sugar production, which is estimated at 1.73 million metric tons (MMT) in MY04 and forecast at 1.75 MMT in MY05. Increasing living costs is expected to keep the demand for sugar at around 3.4 MMT in MY04 and 3.5 MMT in MY05. Sugar imports are also forecast to remain high at 1.5 MMT in MY04 and 1.6 MMT in MY05. A major problem facing Indonesia's sugar industry is smuggling. As long as this is prevalent, domestic producers will not benefit from the existing sugar import policy.

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

A broad range of difficulties facing by farmers, such as inability to access the subsidized credit program (KKP – Kredit Ketahanan Pangan) and the high cost of farming in general, has lead to stagnant cane production, which is now forecast at 24.5 MMT in MY04 (May 03-April 04) and 24.6 MMT in MY05. Increasing living costs and relatively low rates of return from planting cane sugar have discouraged farmers from expanding their cane planting area and/or maintaining their plantations. The lack of sufficient inputs has resulted in low yields. Average cane yields are expected to be approximately 72.0 MT/ha in MY04 and 72.3 MT/ha MY05. Indonesian cane sugar content or sugar rendemen is also low at approximately 7.0 percent in MY04, but with the introduction of new higher yield cane variety it is expected to slightly increase to 7.1 percent in MY05. Inferior milling management from state sugar mills contributed to the stagnant overall sugar yields that are expected to stay at approximately 5.1 MT/ha in MY04 and MY05.

Sluggish growth in the food/beverage industries coupled with high retail prices for sugar and low consumer purchasing power has kept sugar consumption at 3.4 MMT in MY04 but increase slightly to 3.5 MMT in MY05 as the country carrying out a general election in July 2004. Substantial imports are required annually to make up for the shortfall in domestic supply from domestic milling industries. Total sugar imports (consist of raw and refined sugar) are expected to stand at 1.5 MT in MY04 and 1.6 MMT in MY05 as a new refinery is going to be operational in Cilacap, Central Java, in August 2004. It is estimated that approximately 500,000 MT of sugar enters without paying full duty.

Imports may only be carried out prior to and after the milling season that starts in May and runs through November. Import of white sugar may only be carried out by authorized state enterprises at certain conditions, i.e., when the retail price for sugar is higher than Rp. 3,100/kg. This policy is intended to control supply of sugar (timing, tonnage, and port of entries), as well as attempt's to guarantee cane farmers higher prices for their cane crop. However, with or without this policy and its enforcement, prices will remain low and uncompetitive to the international market, due to high cost, lack of efficiency and technologies, and the lack of Government of Indonesia (GOI) support or subsidies for this sector.

Import duties for sugar remain at Rp. 550/kg for raw sugar and Rp. 700/kg for white sugar (below the WTO bound rate). The food and beverage, and pharmaceutical industries (IP-importer producer) are eligible to import white sugar to meet its processing needs, but are prohibited from trading.

Sugar Cane for Centrifugal

PSD Table

Country Commodity	Indonesia Sugar Cane for Centrifugal (1000 HA)(1000 MT)					
	2003 USDA Official	Revised Estimate	2004 USDA Official	Estimate	2005 USDA Official	Forecast Estimate
Market Year Begin	05/2002		05/2003		05/2004	
Area Planted	380	375	375	365	0	360
Area Harvested	350	350	350	340	0	340
Production	25530	25530	25600	24500	0	24600
TOTAL SUPPLY	25530	25530	25600	24500	0	24600
Utilization for Sugar	25530	25530	25600	24500	0	24600
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	25530	25530	25600	24500	0	24600

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

Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID3007.

Centrifugal Sugar

Country Commodity	Indonesia Centrifugal Sugar					
	(1000 MT)					
	2003	Revised	2004	Estimate	2005	Forecast
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Market Year Begin	05/2002	05/2003	05/2004	05/2005	05/2006	05/2007
Beginning Stocks	1385	1385	1340	1340	1490	1170
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1755	1755	1900	1730	0	1750
TOTAL Sugar Production	1755	1755	1900	1730	0	1750
Raw Imports	1050	1000	1200	900	0	950
Refined Imp.(Raw Val)	600	600	600	600	0	650
TOTAL Imports	1650	1600	1850	1500	0	1600
TOTAL SUPPLY	4790	4740	5090	4570	1490	4520
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. Consumptic	3450	3400	3600	3400	0	3500
Other Disappearance	0	0	0	0	0	0
Total Disappearance	3450	3400	3600	3400	0	3500
Ending Stocks	1340	1340	1490	1170	0	1020
TOTAL DISTRIBUTION	4790	4740	5090	4570	0	4520

Note: Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID3007.

Production

Local sugar production is estimate at approximately 1.7 MMT per annum from an annual average cane production of 25 MMT. The majority of Indonesia's sugar production area is on Java (produces 63 percent of local sugar), followed by Lampung (contributes around 29 percent), which is the second largest area.

Small farmers manage more than 50 percent of Indonesia's sugar cane plantation in Indonesia, producing approximately 55 percent of total sugar production. State owned mills and private mills control the balance of cane plantations with a contribution around 23 percent each. Private mills can produce relatively high quality of sugar cane and higher sugar yield as they manage their own plantations, carrying out intensive research and operating modern milling facilities. Six private mills produce 26 percent of total local sugar production.

The high cost of living and relatively low income from planting cane has resulted in poor farming practices and low cane yields. Indonesia's sugar industries have to struggle to prevail over serious constraints that hamper the development of the industry. Despite the availability of subsidized credit for farming (KKP-Kredit Ketahanan Pangan), farmers prefer to apply multiple re-growth planting practices (ratoon) rather than direct planting as this requires less investment. Also, introduction of new or good/suitable cane seedlings have not obtained a positive response from producers. The problem with the GOI's sugar floor price policy is that it is unable to deal with illegal trade practices, which disrupts prices and does not motivate farmers' interest in planting cane. As a result cane yields are expected to

improve only marginally from 72 MT/ha in MY04 to 72.3 MT/ha in MY05. Progress in milling management (particularly state sugar mills) has also been insignificant, thus resulting in relatively low cane quality (sugar rendement/sugar extraction rates), which are expected to remain at 7.0 MT/ha percent in MY04 and increase slightly to 7.1 MT/ha in MY05 as a result of the introduction of new high yield cane variety.

Currently there are 59 sugar mills (52 state owned and 7 private) in operation nationwide. Forty-six of those mills (43 state owned and 3 private) are located on the island of Java, contributing 63 percent of sugar production and the remaining 13 mills (9 state owned and 4 private) operate on other islands. In terms of ownership, state owned sugar mills produce 68 percent of Indonesia's sugar production.

Consumption

The increasing cost of living for consumers has lead to a weaker consumer purchasing power for sugar. As a result, sugar consumption for households and industries is expected to remain stagnant at 3.4 MMT for MY04 and increase slightly to 3.5 MMT in MY05. Direct consumption is estimated at approximately 2.5 MMT of sugar (fulfilled by 1.7 MMT of local white sugar and the balance by imports of both raw and refined sugar) distributed via distributors/sub-distributors/retailers. Most of imported refined/locally refined sugar is consumed by industry. Some of the food/beverage and pharmaceutical industries require industrial sugar (refined and double refined) for their processing facilities and are eligible to import (refined sugar) directly according to their production capacity, at around 250,000 MT per annum. Imported raw sugar is being processed by food flavoring industry and sugar refineries (up to 950,000 MT).

Stocks

Minimum requirements for stocks are approximately for three-month consumption, which is estimated at around 850,000 MT. Post estimates ending stocks will be around 1.2 MT in MY04 and 1.0 MT in MY05.

Prices

The GOI sets sugar floor prices at Rp. 3,410/kg (US\$ 401.2/MT at an exchange rate of Rp. 8,500/US\$1), i.e., the price received by farmers. The average of retail prices for local sugar is Rp. 4,000/kg of US\$ 470.6/MT. Considering the import handling and duty fees, imported sugar should be sold retail at Rp. 4,100 – Rp. 4,200/kg (US\$ 482.3 – US\$ 494.1 per tons). For comparison, some imported sugar is sold and delivered at Rp. 3,000/kg (US\$ 352.9/MT) for minimum order of 10,000 MT and Rp. 3,200/kg (US\$ 376.5/MT) for a minimum order of 5,000 to 10,000 MT, which is well below the floor price.

The GOI has set a of locally refined sugar at Rp. 4,300/kg to Rp. 4,500/kg (US\$ 505.9/MT to US\$ 529.4/MT). According to Indonesia's import policy, locally refined sugar (using imported raw sugar) may not be distributed for direct consumption; it may only be sold to the food/beverage/pharmaceutical industries. However, since the food/beverage/pharmaceutical industries are also eligible to import directly (as an IP-importer producer) the volume of refined sugar becomes excessive.

During the first three months of 2004, the average retail price for local (plantation white or semi-refined) sugar in Indonesia is Rp. 4,000/kg (US\$ 470.6/MT using Rp. 8,500/US\$1 exchange rate). However, reportedly some imported sugar is available at retail at around Rp. 3,200/kg to Rp. 3,400/kg or US\$ 376.5/kg to US\$ 400/kg, below the floor price of domestically produced sugar.

Retail Sugar Prices in Traditional Market**Country**

Indonesia

Commodity

Local Sugar

Prices in

IDR

per Kilogram

Year	2003	2004
Jan	4255	4180
Feb	4318	4213
Mar	4325	4410
Apr	4965	
May	4894	
Jun	4935	
Jul	4719	
Aug	4611	
Sep	4388	
Oct	4333	
Nov	4273	
Dec	4215	

Source: Center for Market Information (PIP), Ministry of Industry and Trade.
Prices are average monthly prices in the Capital City of Jakarta.

Country

Indonesia

Commodity

Imported Sugar

Prices in

IDR

per Kilogram

Year	2003	2004
Jan	4250	4120
Feb	4300	4070
Mar	4330	4010
Apr	4763	
May	4628	
Jun	4770	
Jul	4538	
Aug	4496	
Sep	4318	
Oct	4218	
Nov	4185	
Dec	4135	

Source: Center for Market Information (PIP), Ministry of Industry and Trade.
Prices are average monthly prices in the Capital City of Jakarta.

Trade

To protect sugar farmers, the GOI maintains a sugar import policy to regulate who may import and distribute sugar in Indonesia. According to the regulation, imports may only be conducted by 5 eligible Ministry of Industry and Trade (MOIT) appointed companies, i.e., state sugar mills, PT. Perkebunan Nusantara or PTPN IX, PTPN X, PTPN XI, PT. Rajawali Nusantara Indonesia (PT. RNI), and a state company that is responsible for managing buffer stock, PT. (Perusahaan Perdagangan Indonesia (PT. PPI). Imports may only be carried out during off milling season and off-loaded at particular ports according to the import permit. Bulog is no longer granted import permits for sugar, since it changed its status to a “state trading enterprise”. Furthermore, inter-island distribution of imported sugar is also regulated under MOIT regulation. See policy section.

Considering the deficit in the local sugar supply, Post estimates total sugar imports at 1.5 MMT for MY04 and 1.6 MMT for MY05. Around 60 percent of total imports are raw sugar that should be refined prior to consumption and for food flavoring industry. Despite a tight import and distribution mechanism, illegal imports manage to survive with an estimated volume that can reach around 600,000 MT per annum. GOI official trade data shows imports in MY03 at only 858, 000 MT, overall, which includes around 430,000 MT of raw sugar. However this data fails to include and account for smuggling and illegal imports. The “Trade Matrix” is presented to show the market shares of each supplier.

The GOI has authorized imports of around 500,000 MT and 650,000 MT white sugar in 2004 (for arrival March-May). Raw sugar imports will also be required (but will be determined later) to be refined by the three existing refineries (located in Banten and Central Java provinces) and fulfilling the idle capacity of state sugar mills during their off milling season. Total raw sugar requirement will be approximately 900,000 MT to 950,000 MT per annum in MY04 and MY05. According to the recent MOIT decree, imported sugar may not be distributed inter island.

Trade Matrix

Import Trade Matrix

Country Indonesia

Commodity Sugar

Time Period May - April Units: 1,000 MT

Imports for: 2001/2002 2002/2003

U.S. 0 U.S. 0

Others Others

Thailand	505	Thailand	358
Brazil	121	Australia	122
India	187	India	113
Australia	62	Brazil	53
United Kingdom	54	United Kingdom	35
China	54	China	24
Singapore	36	South Africa	23
Malaysia	20	Malaysia	21
Korea, South	19	Korea, South	16
United Arab Emirates	17	Mozambique	15

Total for Others 1075 780

Others not Listed 57 78

Grand Total 1132 858

Source: Global Trade Statistics

Policy

To support the domestic sugar industry several efforts have been taken by the GOI, including regulating the importation of sugar. Actions have been taken to introduce new cane varieties that will be plant on 20,000 ha of potential land in Java, which is expected to produce higher cane as well as sugar yield.

Inter-Island Trade Regulation

Minister of Industry and Trade Decree No. 61/MPP/Kep/2/2004 dated February 17, 2004, will go into effect two months following the announcement. According to this decree, only refined white sugar (local and import) and plantation white cane sugar (local) can be traded between Islands by registered distributors known as PGAPT (Pedagang Gula Antar Pulau Terdaftar). Several sugar categories are prohibited to be sold inter-island, including: 1) Plantation white sugar (from raw sugar), except the one that sold by the refinery to food, beverage and pharmaceutical industries. 2) Refined white sugar (import) that may only be carried out by importer producers of sugar for its processing and/or manufacturing facilities; and 3) Raw sugar. Distributors should obtain inter-island trading approval from MOIT which states the sugar category, tonnage, place of origin/destination, and distributor/receiver.

Sugar for inter-island distribution is subject to labeling that shows name/address of the importer/producer, sugar category, and the tonnage. The PGAPT should sign an agreement that says they are willing to participate in maintaining sugar price in local market. The recommendation will be granted to distributors who owns/manages distribution facilities. They are also required to submit monthly report to the MOIT (cc to the governor of the province) on the realization of their inter-island distribution. The provincial administration should submit quarterly reports on the inter island distribution of sugar (in and out) and stocks position in the province. The PGPAT certificate is valid for three years with possibilities of extension. Should there be any violation on the overall distribution processes, the certificate can be seize or/and revoked. A monitoring team is being formed by the MOIT to control the implementation of this regulation. Exceptions to this regulation can only be made by the Minister or appointed official.

Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	7,414	7,517	7,598	7,988	8,728	8,742	9,055	8,370	8,891	9,483	9,524	9,385
2001	9,488	9,914	10,460	12,117	11,423	11,436	9,744	9,045	9,696	10,358	10,476	10,450
2002	10,383	10,222	9,779	9,441	9,823	8,741	9,171	8,938	9,057	9,257	9,020	8,929
2003	8,877	8,917	8,957	8,711	8,274	8,259	8,643	8,488	8,389	8,520	8,537	8,465
2004	8,441	8,447	8,587	8,582								

Source: BPS Statistics Indonesia and Business Indonesia Daily Newspaper.

Note: - November 2003 exchange rate is quoted for November 21, 2003

- January 2004 exchange rate is quoted for January 30, 2004

- February 2004 exchange rate is quoted for February 27, 2004

- April 2004 exchange rate is quoted for April 6, 2004

- BPS data available up to August 2003

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