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Report Highlights:

Prospects for Indonesia's textile industry are mixed, with export demand strong, but sales to the domestic market lagging. As a result, cotton imports are forecast to remain about the same over the next two years. The sector faces many challenges including the need to upgrade local production facilities, increased energy costs, and rampant smuggling of finished products into the domestic market. U.S. cotton, however, is expected to be a leading supplier in the market.

Includes PSD Changes: Yes
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I. SITUATION AND OUTLOOK

Prospects for Indonesia's textile industry are mixed, with export demand strong, but sales to the domestic market lagging. Textile exports in 2005 were about US\$ 8.3 billion, up about 9 percent from 2004. Textile exports in 2006 are again expected to grow as Indonesia's competitiveness remains strong and demand for Indonesia's products is firm in international markets. Indonesia is the number 11 leading textile exporter in the world. However, increased production costs due to energy price hikes and rampant smuggling of imported textiles have severely eroded the sector's competitiveness in its own domestic market. Because of the decline in the domestic market, many domestic oriented textile companies have curbed or halted operations. Meanwhile, those that focus on the export market are reasonably healthy. Although the Government of Indonesia (GOI) has implemented specific measures designed to curb illegal imports, smuggling remains a major concern in the industry. Because of this mixed prognosis regarding the health of the industry, demand for cotton imports is not forecast to grow significantly in 2006/07.

Production

Domestic production is of limited commercial significance and is declining. Production for 2006/07 is forecast to drop to 6,800 tons, compared 7,000 tons the previous year. The major producing areas of cotton are East Java, South Sulawesi, Central Java and West Nusa Tenggara. Total production continues to decline due to land conversion as farmers switch out of cotton to alternative crops. Farmers favor other crops with less cost of production and shorter growing periods. Cotton yields remain low at around 500 kg/ha. No further effort has been made to reintroduce Bt cotton since commercial production was halted in 2002, but a local research station in Malang, East Java is reportedly working to develop higher yielding local varieties.

Consumption

Total consumption of cotton for the year of 2005/06 is estimated to be relatively stable at 2.159 bales, and only a slight increase is forecast for 2006/07. With a total capacity of 7.8 million spindles, Indonesian textile mills are now running at about 70.5 percent of capacity. Greater use is hindered by a combination of factors: 1) increased costs of production (fuel, energy, labor); 2) decline in purchasing power and consumers' preference for buying food before clothes; 3) fierce competition from low-priced textiles smuggled in from China; 4) continued difficulty in obtaining financing to perform needed upgrades on mill equipment and machinery; 5) and a 10 percent value-added tax (VAT) on cotton imports. As a result of the rampant smuggling of Chinese products, many domestic market oriented companies have been forced to curtail output and to decrease running capacity of mills. Export oriented companies, meanwhile, have fared better, as their products remain competitive in key international markets. Reportedly, GOI intends to remove the VAT on cotton, yet no concrete action has been taken.

Trade

With little or no expansion in output expected, cotton imports in 2005/06 are expected to remain stable at 2.2 million bales, and only a slight increase is forecast for 2006/07. Major suppliers of cotton to Indonesia in 2005 are United States (48%), Australia (28%) and Brazil (8.7%). For 2005/06, U.S. sales are lagging compared to the record pace of the previous year. Nonetheless, U.S. cotton remains a favorite among local users. Meanwhile, buyers are still trying to mix good quality cotton with cheaper cotton from non-traditional suppliers such as Uzbekistan, Syria, South Africa and India.

In the first quarter of 2006, importers reported problems with delayed shipments from the U.S. caused by port congestion, particularly on cotton from Texas.

Imports of cotton yarn and cotton fabrics increased about 22 percent and 14 percent respectively in 2005. Pakistan (41%) and China (16.4%) remain the major suppliers of cotton yarn to Indonesia while China (57.2%) and Pakistan (9.4%) were the major suppliers of cotton fabrics.

Exports of cotton yarn declined by around 6.7 percent; however, exports of cotton fabrics grew by 5.5 percent in 2005. Major destinations for cotton yarn from Indonesia were Hong Kong (27.3%), Japan (15.7%) and Rep. Of Korea (9.8%) with only 5.5 percent destined to United States.

While not at all optimistic about the domestic market, textile companies remain upbeat about prospects in the international arena, noting that demand remains firm for overseas buyers. Indonesia's products remain competitive, including vis-à-vis China, and exports are expected to continue growing.

Despite the flexibility in terms of payment offered by local cotton suppliers/agents, some local companies continue to express an interest in resumption of the GSM Export Credit Guarantee Program for cotton to Indonesia.

Stocks

As a general rule, users try to maintain cotton inventories at just around 2 months of needs. Ending stocks is forecasted at 3.5 million bales for the year of 2005/06.

Policy

As an effort to minimize smuggling, the Ministry of Trade issued a decree on Provisions on Textile and Textile Products Imports. It stated that imports of cotton, textile and textile products can only be done by Registered Importers (API-T) and Producer Importers (API-P) after an audit conducted by an authorized surveyor. The imported cotton must not be sold directly to market and be used as a raw material to produce textile finish products. This decree was effective September 2005. Nonetheless, reportedly enforcement of this decree has been lax.

Much attention has been focused on removal of the 10 percent value-added tax on cotton. Textile producers point to the need for this action to enhance their competitiveness, and also to reduce the administrative burden associated with recouping the tax when finished products are exported. While reportedly GOI plans to eliminate the tax, to date, no specific action has been taken.

II. STATISTICAL TABLE

Table 1. PSD COTTON (HS code 5201, 5202, and 5203), in Metric Tons

PSD Table						
Country	Indonesia					
Commodity	Cotton				(HECTARES)(MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		08/2004		08/2005		08/2006
Area Planted	0	0	0	0	0	0
Area Harvested	10000	10000	10000	10000	0	10000
Beginning Stocks	79688	75727	104073	76427	95800	78927
Production	6967	7000	6967	7000	0	6800
Imports	522544	478000	500771	480000	0	481000
MY Imp. from U.S.	0	193460	0	246987	0	250000
TOTAL SUPPLY	609199	560727	611811	563427	95800	566727
Exports	4355	4300	4355	4500	0	4500
USE Dom. Consumption	489885	470000	500771	470000	0	475000
Loss Dom. Consumption	10886	10000	10886	10000	0	10000
TOTAL Dom. Consumption	500771	480000	511657	480000	0	485000
Ending Stocks	104073	76427	95800	78927	0	77227
TOTAL DISTRIBUTION	609199	560727	611812	563427	0	566727

Table 2. PSD COTTON (HS code 5201, 5202, and 5203), in Bales

PSD Table					Conversion: 0.004592917	
Country	Indonesia				Units : HA/1000 Bales	
Commodity	Cotton					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		08/2004		08/2005		08/2006
Area Planted	0	0	0	0	0	0
Area Harvested	46	46	46	46	0	46
Beginning Stocks	366	348	478	351	440	363
Production	32	32	32	32	0	31
Imports	2,400	2,195	2,300	2,205	0	2,209
MY Imp. from U.S.	0	889	0	1134	0	1,148
TOTAL SUPPLY	2,798	2,575	2,810	2,588	440	2,603
Exports	20	20	20	21	0	21
USE Dom. Consumption	2,250	2,159	2,300	2,159	0	2,182
Loss Dom. Consumption	50	46	50	46	0	46
TOTAL Dom. Consumption	2,300	2,205	2,350	2,205	0	2,228
Ending Stocks	478	351	440	363	0	355
TOTAL DISTRIBUTION	2,798	2,575	2,810	2,588	0	2,603

Table 3. Cotton Import Trade Matrix (MY 2003 - 2005)

Import Trade Matrix					
Country	Indonesia				
Commodity	Cotton				
Time Period	Aug - Jul	Units:	1,000 MT		
Imports for:	2003		2004		2005
U.S.	141	U.S.	191	U.S.	48
Others		Others		Others	
Australia	86	Australia	87	Australia	45
Ivory Coast	18	Brazil	54	Brazil	17
South Africa	17	Pakistan	20	Benin	5
Brazil	15	South Africa	20	South Africa	4
India	11	Batam Island	12	Syria	4
Benin	11	Uzbekistan	10	Ivory Coast	3
China	9	Togo	9	Mali	3
Burkina Faso	8	Syria	9	Burkina Faso	3
Tanzania	8	Zimbabwe	8	Zambia	3
Mali	7	Uganda	7	Tanzania	3
American Samoa	7	India	7	Central African Rep	3
Togo	7	Benin	6	Batam Island	2
Batam Island	7	Ivory Coast	6	Cameroon	2
Pakistan	6	Burkina Faso	6	Mexico	1
Cameroon	5	Central African Rep	5	Singapore	1
Total for Others	222		266		99
Others not Listed	53		55		18
Grand Total	416		512		165

Source: Global Trade Statistics; for MY05, was only from Aug – Dec 2005

Table 4. Cotton Export Trade Matrix (MY 2003 – 2005)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton		Units: 1,000 MT		
Time Period	Aug - Jul				
Exports for:	2003		2004		2005
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Hong Kong	8	Taiwan	7	Hong Kong	6
Taiwan	7	Japan	6	Taiwan	3
China	5	Hong Kong	4	Japan	2
Japan	3	China	3	Vietnam	1
Vietnam	2	Rep. of Korea	2	China	1
India	2	Vietnam	2	India	1
Philippines	1	India	2		
Thailand	1	Philippines	1		
Italy	1				
Total for Others	30		27		14
Others not Listed	3		3		3
Grand Total	33		30		17

Source: Global Trade Statistics; for MY05, was only from Aug – Dec 2005

Table 5. Cotton Yarn Import Trade Matrix (2003 – 2005)

Import Trade Matrix					
Country	Indonesia				
Commodity	Cotton Yarn				
Time Period	Jan - Dec			Units: 1,000 MT	
Imports for:	2003		2004		2005
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Batam Island	8	Pakistan	7	Pakistan	10
Pakistan	8	Batam Island	4	Batam Island	5
China	7	China	3	China	4
Taiwan	3	Taiwan	3	Taiwan	2
India	2	India	2	India	2
Total for Others	28	Total for Others	19	Total for Others	23
Others not Listed	2	Others not Listed	1	Others not Listed	1
Grand Total	30	Grand Total	20	Grand Total	24

Source: Global Trade Statistics

Table 6. Cotton Yarn Export Trade Matrix (2003 – 2005)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton Yarn				
Time Period	Jan - Dec			Units: 1,000 MT	
Exports for:	2003		2004		2005
U.S.	5	U.S.	5	U.S.	5
Others		Others		Others	
Japan	22	Japan	19	Hong Kong	27
China	19	Hong Kong	19	Japan	15
Hong Kong	17	Rep. of Korea	11	Rep. of Korea	10
Rep. of Korea	13	China	11	China	6
Malaysia	6	Taiwan	5	Sri Lanka	6
Sri Lanka	5	Sri Lanka	5	Taiwan	4
Philippines	4	Malaysia	4	Malaysia	3
Taiwan	4	Germany	3	Philippines	3
Germany	3	Singapore	3	Singapore	3
Nigeria	3	Philippines	2	Germany	2
Italy	3	United Arab Emirates	2	Egypt	2
Singapore	3	Macau	2	Australia	1
United Arab Emirates	2	Italy	2	Vietnam	1
Total for Others	104		88		83
Others not Listed	13		12		10
Grand Total	122		105		98

Source: Global Trade Statistics

Table 7. Cotton Fabric Import Trade Matrix (2003 – 2005)

Import Trade Matrix					
Country	Indonesia				
Commodity	Cotton Fabric				
Time Period	Jan - Dec			Units: 1,000 MT	
Imports for:	2003		2004		2005
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
China	5	China	9	China	11
Batam Island	4	Batam Island	2	Pakistan	2
Hong Kong	3	Hong Kong	2	Hong Kong	1
Australia	1	Pakistan	1	Batam Island	1
Rep. of Korea	1	Rep. of Korea	0	Malaysia	1
Total for Others	14		14		16
Others not Listed	2		3		3
Grand Total	16		17		19

Source: BPS Statistics Indonesia

Table 8. Cotton Fabric Export Trade Matrix (2003 – 2005)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton Fabric				
Time Period	Jan - Dec			Units: 1,000 MT	
Exports for:	2003		2004		2005
U.S.	7	U.S.	5	U.S.	3
Others		Others		Others	
Hong Kong	10	Italy	8	Turkey	8
Japan	8	Bangladesh	7	Hong Kong	7
Italy	8	Japan	7	Japan	7
Bangladesh	6	Hong Kong	7	Italy	7
Germany	3	Turkey	3	Bangladesh	6
China	3	Germany	3	Germany	3
Philippines	2	Belgium	2	Cambodia	3
Belgium	2	Sri Lanka	2	Netherlands	2
Turkey	2	China	2	Sri Lanka	2
United Kingdom	2	Phillipines	2	Phillipines	2
Sri Lanka	2	Malaysia	2	Belgium	2
Rep. of Korea	1	Cambodia	2	Australia	2
Thailand	1	South Africa	2	Malaysia	2
South Africa	1	Australia	1	Egypt	1
Malaysia	1	United Kingdom	1	South Africa	1
Cambodia	1	United Arab Emirates	1	China	1
Vietnam	1	Thailand	1	United Kingdom	1
Spain	1	Netherlands	1	Thailand	1
United Arab Emirates	1	Vietnam	1	United Arab Emirates	1
Total for Others	56		55		59
Others not Listed	11		11		12
Grand Total	74		71		74

Source: BPS Statistics Indonesia

Table 9. Textile Production in 2004 – 2005

PRODUCTS	2004		2005	
	Volume (MT)	Value (1,000 USD)		Volume (MT)
MANMADE FIBERS	796,329	6,117	1,005,530	7,548
YARNS	1,692,201	24,056	1,867,255	26,349
FABRICS	1,312,106	35,427	1,334,210	38,333
GARMENTS	516,987	55,888	583,866	63,832
OTHER TEXTILE	43,671	3,376	46,406	3,921
TOTAL	4,361,294	124,864	4,837,267	139,983

Source: Directorate of Textile Industry, DG of Metal Machine, Textile & Multivarious Industry,
Ministry of Industry

Table 10. Textile and Textile Product Exports in 2004 - 2005

PRODUCTS	2004		2005	
	Volume (MT)	Value (1,000 USD)	Volume (MT)	Value (1,000 USD)
FIBERS	152,237	197,198	192,231	243,323
YARNS	720,801	1,480,764	795,366	1,621,890
FABRICS	339,036	1,420,162	344,748	1,536,643
GARMENTS	324,926	4,289,683	366,959	4,899,423
OTHER TEXTILE	89,485	259,644	95,088	301,597
TOTAL	1,626,485	7,647,451	1,794,392	8,602,876

Source: Directorate of Textile Industry, DG of Metal Machine, Textile & Multivarious Industry,
Ministry of Industry