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Coffee

Annual

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Report Highlights:
The Indonesian coffee sector is watching developments on the international scene, leaving the domestic production side in a holding pattern. There is no expansion in area planted and the forecast for area harvested is flat at 900,000 ha in MY00 and MY01. Newly productive trees are pushing production up marginally in MY01 to 7.3 million bags. Quality remains low due to premature harvest by looters and farmers alike and inadequate input applications. Of particular note, MY00 ending stocks are dwindling down to 94,000 bags; the forecast for MY01 is 109,000 bags which is still quite low. Indonesia supports the ACPC export retention proposal, but cannot afford to forego the exports.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I - SITUATION AND OUTLOOK

Developments in Indonesian coffee production are remarkably unremarkable. Farmers are maintaining area planted and sticking to their usual crop management practices, leaving weather conditions and previous plantings the major factors in MY00 (April 1999-March 2000) and MY01 production. In MY00, total production should register a 3.5 percent increase to 7.2 million bags due to favorable weather after a bout with El Nino and La Nina in previous years. The MY01 forecast is up a trace to 7.3 million bags as more young trees begin to bear fruit.

Total domestic coffee consumption slid in MY99 to 1.6 million bags, hurt by the economic crisis which lowered consumers' purchasing power. Signs of improvement are visible and the consumption estimate for MY00 is up a fraction to 1.68 million bags and 1.69 in MY01.

Export are on a downward trend due to lower international prices and a less attractive Rupiah/US Dollar exchange rate. From the 6.0 million bags exported in MY99, coffee exports are estimated to decline to 5.6 million bags in MY00. The MY01 export forecast is virtually unchanged at 5.6 million bags. In March 2000, the robusta FOB (South Sumatra) price hit $0.81/kg, compared to $1.56 in March the previous year. Farmers were reportedly holding their product off the market in anticipation of higher prices but have just recently begun deliveries.

SECTION II - STATISTICAL INFORMATION AND TABLES

Table 1. Production, Supply and Demand

PSD Table						
Country:	Indonesia					
Commodity:	Coffee, Green			Unit: 1000 of 60 Kg Bags		
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		04/1998		04/1999		04/2000
Area Planted	1160	1160	1160	1160	0	1160
Area Harvested	900	900	900	900	0	900
Bearing Trees	1300	1300	1300	1300	0	1310
Non-Bearing Trees	220	220	220	220	0	210
TOTAL Tree Population	1520	1520	1520	1520	0	1520
Beginning Stocks	804	804	141	141	161	94
Arabica Production	485	485	475	475	0	490
Robusta Production	6465	6465	6725	6725	0	6810
Other Production	0	0	0	0	0	0
TOTAL Production	6950	6950	7200	7200	0	7300
Bean Imports	24	24	100	50	0	50
Roast & Ground Imports	1	1	0	3	0	5
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	25	25	100	53	0	55
TOTAL SUPPLY	7779	7779	7441	7394	161	7449
Bean Exports	6019	6019	5590	5590	0	5600
Roast & Ground Exports	19	19	10	30	0	50
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	6038	6038	5600	5620	0	5650
Rst,Ground Dom. Consum	1565	1565	1645	1645	0	1650
Soluble Dom. Consum.	35	35	35	35	0	40
TOTAL Dom. Consumption	1600	1600	1680	1680	0	1690
Ending Stocks	141	141	161	94	0	109
TOTAL DISTRIBUTION	7779	7779	7441	7394	0	7449

Table 2. Robusta Bean Prices

Month	S. Sumatera (Rp./Kg)	Lampung (Rp./Kg)	E. Java (Rp./Kg)	Average Farmgate		Avg. FOB (US$/Kg)
				(Rp./Kg)	(US$/Kg)	
1999						
Jan	10,195	10,366	11,400	10,654	1.13	1.80
Feb	10,212	10,711	10,750	10,558	1.17	1.77
Mar	10,198	9,500	12,025	10,574	1.20	1.56
Apr	9,424	8,943	11,300	9,889	1.15	1.48
May	7,324	7,446	9,625	8,132	0.99	1.36
Jun	6,926	6,785	8,750	7,487	1.11	1.35
Jul	5,773	6,520	7,563	6,619	0.95	1.30
Aug	7,044	6,420	7,563	7,009	0.91	1.30
Sep	6,920	7,137	8,250	7,436	0.87	1.22
Oct	6,385	6,139	7,813	6,779	0.98	1.25
Nov	6,738	6,431	7,563	6,911	0.92	1.34
Dec	6,762	6,382	8,300	7,148	1.00	1.47
2000						
Jan	6,369	6,031	10,425	7,608	1.03	1.42
Feb	5,630	5,233	7,375	6,079	0.81	1.23
Mar	4,998	4,874	5,250	5,041	0.66	0.81

Source: AEKI (Indonesian Coffee Exporters Association), October 1999.
Notes: Prices at provinces are farmgate robusta prices (kopi asalan).
The average farmgate price in US$ is calculated by FAS/Jakarta from the average exchange rate for each month (see table at the end of the report). The FOB value (in US$) is calculated by FAS/Jakarta based on the average FOB prices in South Sumatera, Lampung and East Java for each month.

Table 3. Coffee (Green) Export Jan-Dec 1999 and Apr-Dec 1999

Export Trade Matrix			
Country:	Indonesia	Units:	K 60 Kg Bags
Commodity:	Coffee, Green		
Time period:	Jan-Dec		Apr-Dec
Exports for	1999		1999
U.S.	610	U.S.	500
Others		Others	
Japan	1,116	Japan	931
Germany	838	Germany	721
Poland	449	Poland	372
Italy	328	Rep. of Korea	285
Rep. of Korea	289	Italy	255
Singapore	232	United Kingdom	185
Bulgaria	202	Singapore	181
South Africa	201	Bulgaria	161
United Kingdom	200	South Africa	145
Malaysia	157	Malaysia	131
Total for Others	4,012	Total for Others	3,367
Others not listed	1,229	Others not listed	1,048
Grand Total	5,851	Grand Total	4,915

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

Table 4. Coffee (Roasted) Export Jan-Dec99 and Apr-Dec 1999

Export Trade Matrix			
Country:	Indonesia	Units:	K 60 Kg Bags
Commodity:	Roasted Coffee		
Time period:	Jan-Dec		Apr-Dec
Exports for:	1999		1999
U.S.	0	U.S.	0
Others		Others	
Japan	10	Japan	8
Singapore	10	Singapore	6
Poland	5	Poland	5
Malaysia	4	Malaysia	3
Taiwan	4	Taiwan	3
Total for Others	33	Total for Others	25
Others not listed	1	Others not listed	1
Grand Total	34	Grand Total	26

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

The following table presents data on the development of total coffee exports during 1995/96 through 1999/00 from the Directorate of Export, Ministry of Industry and Trade (processed by the AEKI). Please note that some of the data are revised since ID9080 according to updated information.

Table 5. Indonesian Coffee Exports
(in Metric Tons)

Months	1995/96	1996/97	1997/98	1998/99	1999/2000*)
April	8,666	20,650	25,354	14,401	25,412
May	16,010	40,151	35,723	14,752	34,940
June	23,375	36,729	45,429	36,327	32,002
July	26,619	55,187	39,141	50,975	33,652
August	28,063	42,964	34,191	49,631	33,562
September	30,098	43,490	33,263	41,791	30,610
October	29,109	44,888	28,978	33,256	26,535
November	33,295	32,092	17,411	20,002	16,857
December	21,909	28,048	21,766	20,342	13,067
January	15,959	21,882	14,393	16,394	10,336
February	12,634	17,398	15,626	17,144	12,629
March	15,123	24,305	19,105	22,495	1,959
TOTAL Apr-Mar	245,737	383,479	311,275	315,015	269,602
in K 60 kg bags	4,096	6,391	5,188	5,250	4,493

Source: Certificate of Origin Forms (Surat Keterangan Asal or SKA), Directorate of Export, Ministry of Industry and Trade. Processed by AEKI.
Note: *) Preliminary figures.

Table 6. Indonesia's Export and Import of Coffee
(Calendar Year: January -December)
In Metric Tons/US$

Year (Jan-Dec)	Export			Import		
	Volume Metric Tons	Value US$ (FOB)	Unit Price US$/MT	Volume Metric Tons	Value US$ (CIF)	Unit Price US$/MT
1994	291,198.25	753,718,060.00	2,588.33	945.17	1,545,951.00	1,635.63
1995	231,478.42	613,978,858.00	2,652.42	515.91	1,594,870.00	3,091.37
1996	368,626.22	605,947,870.00	1,643.80	458.84	1,084,105.00	2,362.71
1997	316,230.99	529,670,514.00	1,674.95	10,332.13	14,321,189.00	1,386.08
1998	363,015.25	615,778,524.00	1,696.29	3,045.11	4,498,265.00	1,477.21
1999	358,018.25	488,759,506.00	1,365.18	3,045.07	3,778,983.00	1,241.02

Source: Central Statistics Agency (BPS-Badan Pusat Statistik), Indonesia. Processed by FAS/Jakarta.

Table 7. Indonesia: Quality Composition of Exported Coffee
(Combined Robusta and Arabica)

Coffee Year (October-September)	% High Grades (1& 2)	% Medium Grades (3 & 4)	% Low Grades (5 & 6)
1994/1995	13.42	70.82	15.76
1995/1996	9.45	78.15	12.40
1996/1997	11.56	70.47	17.97
1997/1998	11.35	71.65	17.00
1998/1999 *	14.22	70.16	15.62
1999/2000 *	23.45	63.17	13.38

Source: Indonesian Coffee Exporters Association (AEKI: Asosiasi Eksportir Kopi Indonesia). Processed by FAS/Jakarta.
Note: Percentages were calculated based on the volume (by weight), combined dry and wet processed.
* Preliminary data.

SECTION III - SUPPLY AND DEMAND NARRATIVE

Production

Following the long dry season caused by El Nino in 1997, La Nina hit coffee producing areas in Indonesia and dropped production to 7.0 million bags in MY99. Under more favorable weather conditions during the blooming season (around December 1999), the production estimate is increased to 7.2 million bags in MY00. Assuming favorable weather conditions persist, FAS/Jakarta forecasts production to increase slightly to 7.3 million bags in MY01 spurred by young trees beginning to bear fruit. Neither area planted nor area harvested have budged during the MY99 to MY01 years, registering at 1.16 million hectares and 900,000 hectares, respectively.

Coffee producers are both hesitant and complacent resulting in stable production and average to low yield and quality. Investment in the area expansion is not feasible at this time as interest rates are still high (roughly 20% on lending). Weak international prices for robusta beans hampers their motivation to increase production and/or improve management practices. Producers are carefully following the current initiative to collectively restrain global exports. At the same time, profits are healthy due to the devalued rupiah (which has appreciated since its initial devaluation but still remains around Rp. 7,500-8,000/$1 U.S.) so producers are not inclined to decrease production or otherwise change management practices. Factor in the incidence of looting which reduces yield and harvests beans prematurely. Farmers themselves are adding to that problem by harvesting prematurely in order to thwart looters. As a result, yields and quality are low. The average yield is only 463 kg/ha in MY99, increased to 480 kg/ha in MY00 and should remain at 487 kg/ha in MY01 because international and domestic economic conditions are expected to change slowly.

Small holders manage around 93 percent of area planted in Indonesia, and the balance is managed by state plantations and private owners. Area planted consists of 95 percent robusta coffee and 5 percent Arabica. In addition to the economic disincentives to expand, area is limited by soil conditions and altitude. Expansion of Arabica area, which is more lucrative, is particularly inhibited by geography since it requires an altitude of 1,000 meters above sea level. Specialty/gourmet (Arabica) and organic area is expanding, but still represents only a tiny fraction of total area. In an effort to improve coffee quality, the GOI (through the Jember Coffee and Cacao Research Center) and the Association of Indonesian Coffee Exporters (AEKI) are working to build the Center for Coffee Development and Extension Service in Lampung. The center is expected to be in operational in 2001.

Consumption

Domestic consumption is only 22 percent of total supply. The industry is and will continue to be export oriented. That said, domestic consumption does affect the supply and demand balance sheet, as is evidenced in the draw down in stocks in MY99/00. Total consumption reached 1.6 million bags in MY99 and started to increase to 1.7 million bags in MY00 when the consumer buying power is improving. Consumption is estimated to increase less than 1 percent, 10,000 bags, in MY01 but remain at 1.7 million bags due to further strengthening of the economy, at which point coffee consumption levels are expected to level off.

Stocks

If changes in Indonesian coffee production are relatively unremarkable, then developments in the category of stocks could effect the Indonesian coffee situation. MY99 beginning stocks were 804,000 million bags boosting total supply to 7.78 million bags in what would have otherwise been a lean year. Thanks to robust exports of 6.04 million bags that year, ending stocks landed at a mere 141,000 bags. In MY00, total supply was down as were exports, but a 5 percent increase in domestic consumption helped push ending stocks down to 94,000 bags. In MY01, production will be under pressure to compensate for low stock levels, which are forecast to end at 109,000 bags. If the market runs short, higher prices could result.

Trade

Exports in 1998/99 were a respectable 6.04 mil. bags and are roughly the same in MY00 and MY01 at 5.6 mil. bags and 5.7 mil. bags, respectively. About 78 percent of Indonesia's coffee is exported and over half of that is exported to only 4 countries: Japan, Germany, the United States and Poland. Indonesia exports virtually only green beans, as dictated by the market. Roasted bean exports are only about 34,000 bags (Jan.-Dec. 1999). The customer base is heavily Asian, including Japan, Singapore, Malaysia and Taiwan. Poland ranks about third.

While overall crop quality has been on the low side, with respect to high quality export grades, quantity has reportedly increased in the last three years. Meanwhile exports of medium and lower grades are, according to AEKI, declining. AEKI has a very optimistic forecast that high grade exports will be up as much as 65 percent in 2000.

In the short run, export retention by the members of the Association of Coffee Producing Countries (ACPC) could boost prices and encourage production. Indonesia should also continue to benefit from the favorable Rupiah/Dollar exchange rate for the short to medium term. In the long term, Indonesia will feel increasing pressure from Vietnam, which has burst onto the world coffee scene in the last few years. Competition from good quality, competitively priced Viet coffee could prove harmful to Indonesia.

Prices

Domestic coffee prices have declined significantly over the past year, following the course of international prices. As of March 2000, robusta beans were selling at around $0.66/kg versus $1.20/kg in March the previous year (average farmgate price). The FOB price had been slowly declining since January 1999 until October 1999 when it started to show signs of life, but then in January 2000 the FOB price proceeded to drop drastically to $0.81/kg. Indonesian producers and traders are watching the market closely with one eye fixed on the the APCP in mid-May.

Trade Policy

In order to market Indonesian coffee as high quality and generate higher revenue, the Government of Indonesia (GOI) continues to limit exports to grades 1 through 6 and prohibit exports of lower grades. In 1999, the GOI reduced its national standards for coffee beans to allow 5 percent variance in size uniformity in the sorting process for both dry processed robusta and wet processed robusta, up from 1 percent and 2.5 percent, respectively. As a result, exported beans will be less uniform in size.

AEKI and the GOI support the ACPC's coffee export retention proposal which will be discussed at a meeting in mid May. The proposal calls for export restraint when world coffee prices decline to predetermined trigger levels. The details of the program and how it would be implemented are up for discussion in the forthcoming meeting. However, due to tight fiscal constraints neither the GOI nor the industry can afford to forego the opportunity costs associated with export retention (for example, losses for one year can be estimated at $22.5 million based on exports of 30,000 tons and a world price of $.75/kg).

Exchange Rate

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1,997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1,998	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	7590	7945	7950							

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
Note: - May 2000 exchange rate is quoted for May 4, 2000.
- BPS data available up to February 2000.

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