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# Indonesia

# Coffee Annual

# 2011

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**Report Highlights:**

- Indonesian coffee production levels will decrease from 10.4 to 9.3 million 60-kg bags in MY 2010/2011. Post expects levels to further decrease to 7.9 million 60-kg bags in MY 2011/2012.
- Declining production levels will lead to lower domestic coffee exports, from 7.42 million 60-kg bags in MY 2010/2011 to 5.93 million 60-kg bags in MY 2011/2012.

**Commodities:**

**Production:**

The blossoming and harvesting periods for coffee in Indonesia usually occur during the dry season, which typically lasts from April to September. While normal Indonesian weather patterns during the 2009 blossoming period led to healthy coffee bean blossoms, the harvesting of those same cherries the following year in 2010 was severely impacted by a la niña weather pattern. This weather pattern led to higher-than-average levels of rainfall, which concomitantly severely impacted the 2010 blossoming period. As a result, Indonesian coffee production dropped to 9.3 million 60-kg bags in MY 2010/2011. Post expects Indonesian coffee production will further drop to 7.9 million 60-kg bags in MY 2011/2012, as lower yields will occur during the 2011 harvest. This is a result of the residual impact of the poor blossoming conditions in 2010.

| **Year** | **2009/2010** | | **2010/2011** | |
|---|---|---|---|---|
| **Crop Period** | **Blossoming** | **Harvesting** | **Blossoming** | **Harvesting** |
| Weather Situation | Normal Dry Season | High Rainfall | High Rainfall | Possible Normal Dry Season |
| Affected Production Period | Coffee Production MY 2010/2011 | | Coffee Production MY 2011/2012 | |

Indonesian producers typically use two types of coffee processing, to include dry and wet processing. Dry processing is cheaper than wet processing, as it requires no specific equipment or additional inputs. As a result, dry processing is largely preferred by smallholder coffee growers, who produce over 95 percent of Indonesia's coffee. Dry processing, however, is not an efficient process under rainy conditions as it requires intense and constant sun light.

In 2011, the Indonesian Weather Agency (BMKG) forecast a return to more normal weather conditions. This would lead to a normal dry season in 2011. If the weather forecasts prove to be accurate, better blossoming and harvest conditions should occur. However, if weather conditions during the May to September 2011 timeframe remain unfavorable, the coffee harvest and subsequent drying process could result in additional losses. Should this occur, Post expects that Indonesia's coffee production levels would decrease more than the current forecasted figure of 7.9 million 60-kg bags in MY 2011/2012.

Due to unchanged harvested area levels - around 1.2 million hectares - Indonesia's coffee production drop is solely attributed to weather-related production decreases. The aforementioned la niña weather pattern not only eroded productivity levels of smallholder plantations but also well-managed private and state-owned plantations.

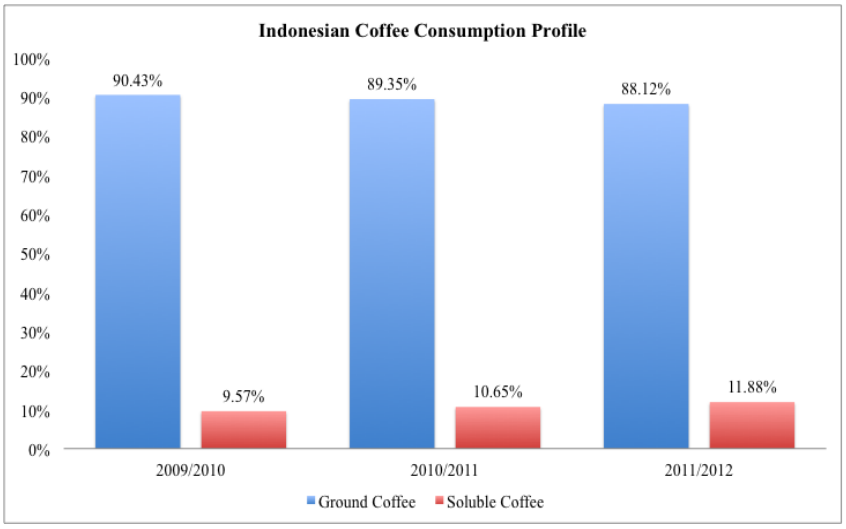
| Year | Plantation A | | Plantation B | | Plantation A + B | | |
|---|---|---|---|---|---|---|---|
| | Rainfall (mm) | Rainy Day (Days) | Rainfall (mm) | Rainy Day (Days) | Production (Ton) | Yield (Ton/Ha) | Harvesting Area (Ha) |
| 2007 | 1,665 | 111 | 1,544 | 102 | 344.38 | 0.87 | 396.41 |
| 2008 | 1,543 | 110 | 1,923 | 130 | 698.85 | 1.76 | 396.41 |
| 2009 | 1,569 | 113 | 2,131 | 121 | 768.46 | 2.04 | 376.97 |
| 2010 | 3,083 | 151 | 3,627 | 204 | 538.53 | 1.43 | 376.97 |

The table above illustrates local rainfall data at two state-owned coffee plantations in Java Island. These plantations are well managed as they apply good agricultural practice such as integrated plant diseases control, soil analysis to set fertilizer program, rejuvenation and replanting program, as well as good post-harvest practices. The extremely wet weather in 2010 led to an estimated 30 percent production and productivity drop. Post predicts that productivity levels of Indonesia coffee will decrease by 10.6 percent in MY 2010/2011 and by an additional 9.7 percent in MY 2011/2012.

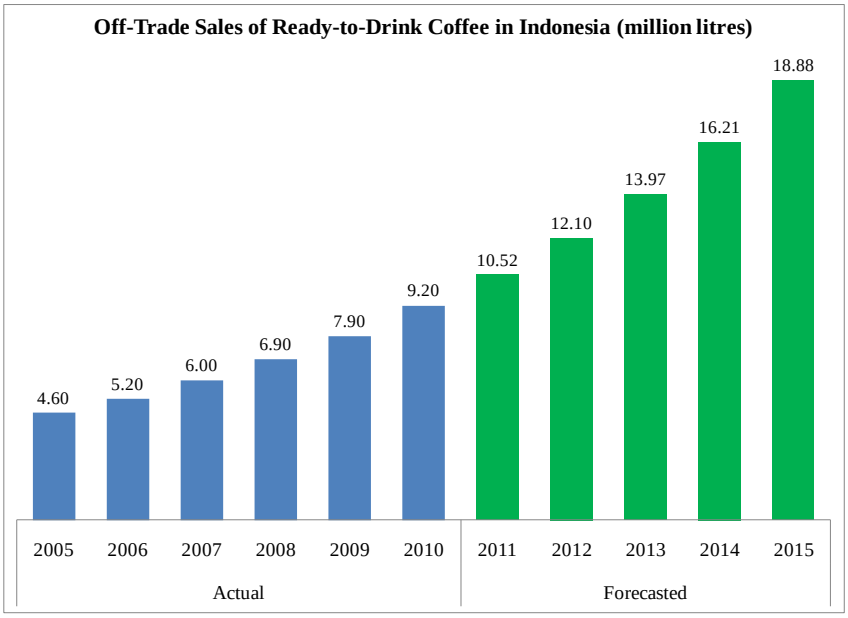
**Consumption:**

The economic crisis that hit Indonesia in 1998 significantly cut coffee consumption. The level of consumption regained momentum in 2001 and it has reached stable annual growth at around 3.5 percent since 2004.

Ground coffee accounts for the lion's share of Indonesian consumption. Product innovations, such as introduction of 3-in-1 instant coffee (which combines sugar, instant coffee, and nondairy creamer), in addition to standard instant coffee, as well as canned and packaged coffee beverages are expected to increase soluble coffee consumption.




*Source: Post's Estimation*




*Source: Euromonitor Report 2011*

Post estimates that Indonesia's coffee consumption stands at 2.16 million 60-kg bags in MY 2010/2011. Post further expects that level to increase by approximately 3.25 percent to 2.23 million 60-kg bags in MY 2011/2012.

**Trade:**

The decline in production will lower domestic coffee stocks availability for export. Indonesia cut its coffee exports from 8.75 million 60-kg bags in MY 2009/2010 to 7.42 million 60-kg bags in MY 2010/2011. Post anticipates further decreases in coffee exports to 5.93 million 60-kg bags in MY 2011/2012.

**Stocks:**

Coffee farmers in Indonesia typically do not maintain any harvested stocks, as they do not generally have the capacity to store the coffee beans. Also, demands from traders and middle men encourage farmers to sell their green beans as soon as they are harvested, which typically means that farmers receive low prices for their coffee. However, due to lower stocks, prices have increased. Un-sorted Robusta bean prices received by farmers in major producing provinces, such as Lampung, increased from an average of 10,000 – 12,000 Indonesian rupiah (IDR) in 2010 per kg year to 17,500 – 19,000 IDR per kg this year.

Ending stocks are expected to decline from 143,000 60-kg bags in MY 2009/2010 to 73,000 60-kg bags in MY 2010/2011. Post predicts that this will decrease further to 53,000 60-kg bags in MY 2011/2012.

**Policy:**

- The Association of Indonesian Coffee Exporters (AEKI) collects membership fees of IDR 30 per kg of exported coffee from their members. Membership fee payments have become one of the requirements coffee exporters must meet to facilitate receiving the requisite coffee export license (SPEK). The recently-issued Ministry of Trade (MOT) Decree No. 10/2011 simplifies export licensing procedure by removing this requirement.

- There are some implications from the issuance of the decree, to include:
  - The MOT, instead of AEKI, will now pay annual membership fees to the International Coffee Organization (ICO).
  - Non-AEKI members, exporters and/or farmers are now free to export coffee and are eligible to receive the SPEK from the MOT. From this perspective, the decree will create more equal business climate among Indonesian coffee exporters.

Production, Supply, and Distribution Table of Indonesian Green Coffee

| Coffee, Green Indonesia | 2009/2010 | | 2010/2011 | | 2011/2012 | | |
|---|---|---|---|---|---|---|---|
| | Market Year Begin: Apr 2009 | | Market Year Begin: Apr 2010 | | Market Year Begin: Apr 2011 | | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Planted | 1,300 | 1,300 | 0 | 1,300 | | 1,300 | (1000 HA) |
| Area Harvested | 1,200 | 1,200 | 0 | 1,200 | | 1,200 | (1000 HA) |
| Bearing Trees | 1,280 | 1,280 | 0 | 1,280 | | 1,280 | (MILLION TREES) |
| Non-Bearing Trees | 190 | 190 | 0 | 190 | | 190 | (MILLION TREES) |
| Total Tree Population | 1,470 | 1,470 | 0 | 1,470 | | 1,470 | (MILLION TREES) |
| Beginning Stocks | 108 | 108 | 143 | 143 | | 73 | (1000 60 KG BAGS) |
| Arabica Production | 1,350 | 1,500 | 1,200 | 1,375 | | 1,230 | (1000 60 KG BAGS) |
| Robusta Production | 8,825 | 8,915 | 7,800 | 7,930 | | 6,655 | (1000 60 KG BAGS) |
| Other Production | 0 | 0 | 0 | 0 | | 0 | (1000 60 KG BAGS) |
| Total Production | 10,175 | 10,415 | 9,000 | 9,305 | | 7,885 | (1000 60 KG BAGS) |
| Bean Imports | 460 | 460 | 200 | 200 | | 250 | (1000 60 KG BAGS) |
| Roast & Ground Imports | 0 | 0 | 0 | 0 | | 0 | (1000 60 KG BAGS) |
| Soluble Imports | 0 | 0 | 0 | 0 | | 0 | (1000 60 KG BAGS) |
| Total Imports | 460 | 460 | 200 | 200 | | 250 | (1000 60 KG BAGS) |
| Total Supply | 10,743 | 10,983 | 9,343 | 9,648 | | 8,208 | (1000 60 KG BAGS) |
| Bean Exports | 7,425 | 7,425 | 6,000 | 6,115 | | 4,825 | (1000 60 KG BAGS) |
| Rst-Grnd Exp. | 0 | 0 | 0 | 0 | | 0 | (1000 60 KG BAGS) |
| Soluble Exports | 1,325 | 1,325 | 1,400 | 1,300 | | 1,100 | (1000 60 KG BAGS) |
| Total Exports | 8,750 | 8,750 | 7,400 | 7,415 | | 5,925 | (1000 60 KG BAGS) |
| Rst,Ground Dom. Consum | 1,700 | 1,890 | 1,750 | 1,930 | | 1,965 | (1000 60 KG BAGS) |
| Soluble Dom. Cons. | 150 | 200 | 150 | 230 | | 265 | (1000 60 KG BAGS) |
| Domestic Use | 1,850 | 2,090 | 1,900 | 2,160 | | 2,230 | (1000 60 KG BAGS) |
| Ending Stocks | 143 | 143 | 43 | 73 | | 53 | (1000 60 KG BAGS) |
| Total Distribution | 10,743 | 10,983 | 9,343 | 9,648 | | 8,208 | (1000 60 KG BAGS) |
| Exportable Production | 8,325 | 8,325 | 7,100 | 7,145 | | 5,655 | (1000 60 KG BAGS) |
| TS=TD | | 0 | | 0 | | 0 | |
| Comments | | | | | | | |
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