

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Date: 11/15/2010

GAIN Report Number: ID1032

Indonesia

Coffee Semi-annual

2010

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Report Highlights:

Indonesia's coffee production is predicted to drop by at least 15 percent in marketing year (MY) 2010/2011. This drop is primarily attributed to the dramatic increase in rainfall throughout Indonesia in calendar year 2010. This drop in production will also lead to a significant decrease in exports. Post estimates that exports will be reduced by at least 17 percent in MY 2010/2011. Furthermore, Post also predicts an increase in bean imports by 25 percent in MY 2010/2011.

Executive Summary:

Higher and more intensive levels of rainfall have impacted all of Indonesia's coffee production areas, with Java, Bali, and the southern areas of Sumatra being particularly impacted. The increased levels of rainfall impact production yields as well as producers' ability to dry the beans after harvest. Many small holder coffee producers dry their beans in the sun and have suffered post-harvest losses because of the constant rains. Moreover, the rainfall has caused additional humidity, which has led to increased infestations of coffee bean borer, particularly in Indonesia's central coffee growing area. Post predicts that all of these weather related challenges will cut Indonesia's coffee production by at least 15 percent in MY 2010/2011. Finally, domestic coffee consumption in Indonesia has continued to increase over the past three marketing years. The production drop in MY 2010/2011, coupled with the increased domestic consumption, are expected to cut export by 17 percent and to raise levels of green coffee bean imports by 25 percent.

Commodities:

Coffee, Green

Production:***Crop Areas:***

The level of the coffee production areas in Indonesia has generally remained stagnant over the past three marketing years at roughly 1.3 million hectares. Low market prices for Robusta farmers have not created incentives to expand the number of Robusta hectares in production. In fact, it has been reported that some Robusta producers may be switching from coffee to cocoa production, as they believe that cocoa is more economically viable. Approximately 70 percent of Indonesian Robusta production occurs in southern Sumatra. Additionally, there has been limited expansion of land for Arabica production. One reason that was cited was that farmers are increasingly prohibited from planting coffee on protected forest areas.

Production:***Marketing Year 2009/2010***

Post revises Indonesia's coffee production figure from 9,150,000 to 9,400,000 60 – kg bags. The revised figure reflects that Indonesia's coffee production experienced mild growth at 1.08 percent than that of previous marketing year thanks to larger harvested area and yield improvement. Arabica production registered much higher growth at 4.16 percent than that of Robusta at only 0.62 percent. The Government of Indonesia (GOI), supported by AMARTA-USAID, has dedicated serious efforts to improve the productivity by doing rejuvenation and replanting program and to enlarge planting area of Arabica coffee for the last three years. Better price of Arabica coffee at IDR 26,000 – 29,000 per kg compared to that of Robusta price at IDR 12,000 to 16,000 per kg is the main reason behind this serious program.

Marketing Year 2010/2011

Higher and more intensive rainfall throughout Indonesia's coffee growing areas, including Sumatra, Java, and Sulawesi, during the harvesting period of April – September 2010 resulted in sub-optimal sun drying process of coffee bean. (*See the appendix for detailed rainfall data*). These three islands account for 86 percent of the total planted area and 92 percent of total coffee production.

The more intensive rainfall has also triggered higher than normal levels of humidity, which results in climatic conditions that are favorable to the coffee bean borer. Traditionally, the coffee bean borer has primarily been a problem for Robusta producers, but this year some Arabica growing areas in Sumatra are also affected by coffee bean borer.

Post estimates that production in Indonesia will decrease from 9.6 million to 8 million 60-kg bags. The new post estimation implies a decrease of at least 15 percent in production over marketing year 2010/2011. Post reached these conclusions by discussing the current situation with a number of producers from different areas of Indonesia.

Consumption:

The growing number of coffee shop outlets has increased dramatically in urban areas throughout Indonesia. International and domestic coffee shops have become a fixture of many neighborhoods and malls, particularly in cities like Jakarta, Surabaya, Medan, and Bandung. The rapid spread of coffee shop chain retail outlets is because of the rapid rate of urbanization, a strong Indonesian economy, and strong branding and marketing campaigns. Instant coffee and other coffee-based drink consumption has also increased, which is indicative that more middle and lower-middle income consumers are drinking more instant and other coffee products. Post estimates a moderate domestic consumption increase from 1,750,000 60-kg bags to 2,000,000 60-kg bags (0.51 kg/cap) in MY 2009/2010 and 2,100,000 60-kg bags (0.53 kg/cap) in MY 2010/2011. These new post estimate figures are lower than that of previous Post figures.

Trade:

Marketing Year 2009/2010

Limited production growth amidst increased domestic consumption is likely to lead to lower exports of Indonesia coffee. New Post estimates for export are 7,520,000 60-kg bags; a two percent drop compared to that of export figure in MY 2008/2009. Higher domestic consumption also requires more imported coffee beans to be blended with the domestic single origin coffee used by domestic instant coffee producers and local coffee shops. New post estimate of coffee import figure stand at 200,000 60-kg bags in marketing year 2009/2010.

Marketing Year 2010/2011

Lack of export quality coffee beans due to the sub-optimal sun drying process and lower soluble coffee available for export is expected to cut export volume by 17 percent at minimum to 6,220,000 60-kg bags. Local soluble coffee producers may focus on satisfying domestic demand at the expense of lower export sales.

Imports of green coffee beans are also predicted to increase to 250,000 60-kg bags from 200,000 60-kg bags in previous marketing year. The increasing import reflects both higher domestic consumption and significant disruption in domestic supply.

Stocks:

Ending stocks for the marketing year 2010/2011 are predicted to decrease by nearly 40 percent to 108,000 60-kg bags. Based on the information from Indonesian Coffee Exporter Association, a large part of the ending stock is held by the farmers as their coffee cannot satisfy quality requirement set by the exporters.

Policy:***General***

- The local industry is trying to strengthen the domestic market by conducting intensive promotional campaign and promoting the health benefits of coffee drinking.
- The GOI is pushing for the development of downstream coffee industries and encouraging “coffee industry clusters”.
- The application of good agricultural practices and sustainable coffee production has been identified as a key objective the GOI.
- Promoting higher value added of coffee products that focus on exporting high quality green bean and further processed coffee products.

Arabica

- The GOI has determined that Arabica coffee development is a national priority. Their objective is for Arabica coffee to reach a minimum 30 percent of the total Indonesian coffee exports.
- Protect the uniqueness of Indonesia’s specialty coffees in the international market through geographic indicators. The GOI issued Indonesian Law No. 15/2001 and Government Decree No. 51/2009, which provided for geographical indication for *Kintamani* and *Gayo* coffees. It is likely that the GOI will also issue geographical indication for other Indonesian coffee in the future.
- The GOI, through Ministry of Agriculture, has implemented rejuvenation and replanting program for nearly 12,500 hectares of Arabica coffee planting area since year 2007. The GOI has spent approximately 50 billion rupiah (five million dollars) to run this program.

Robusta

- The GOI will focus on quality improvement of Robusta coffee due to limited room for production and land expansion.

Production, Supply and Demand Data Statistics:

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