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Report Highlights:

Following a 20 percent decline in 2020/21, cotton imports are forecast higher in 2021/22 on stronger global and domestic demand for textile and textile products. The global pandemic continues to pose challenges for Indonesian industry as weaker demand, higher cotton prices and production costs, and supply chain challenges tighten margins.

Production

Indonesia's domestic cotton production remains limited, meeting less than one percent of industry demand. Production for 2021/22 is forecast to remain stable at 2,000 bales as farmers continue to prefer more lucrative crops and area for expansion remains limited due to land conversion to non-agricultural use. The Ministry of Agriculture (MOA) reported that in 2020/21 most cotton was grown on marginal lands, primarily in South Sulawesi (51.3 percent), East Nusa Tenggara (24.5 percent), Central Java (7.76 percent), and West Nusa Tenggara (7.36 percent). There are currently no Government of Indonesia (GOI) programs or incentives for increasing cotton production.

Consumption

Since the onset of the COVID-19 pandemic, the GOI has imposed various measures intended to slow the spread of the virus, including limiting travel, social distancing, and banning large gatherings. The most restrictive measures were enforced during the second quarter of 2020 and have since been followed by a series of changing requirements under a "new normal" framework. Despite the measures, positive cases have continued to rise throughout the country, slowing an already slow economic recovery. For the second year in a row the GOI has placed restrictions on travel during Ramadan (known as *Mudik*), when millions of Indonesians traditionally return from major cities to their home towns and villages. The restrictions are likely to further depress domestic demand for garments and textiles, which are often shared as gifts during the holiday season. Ultimately, demand for cotton is not expected to recover to pre-pandemic levels until the virus is contained through a vaccination program. As of March 26, the GOI has administered 9,745,646 doses of vaccine; with 2.3 percent of the population receiving one shot and 1.1 percent of the population fully vaccinated with two shots. The GOI is currently only reaching about one-third of the targeted daily vaccination rate of 1.5 million.

The pandemic continues to weigh on Indonesia's economy (GDP), which continued to contract in the fourth quarter of 2020, though to a lesser degree than during the previous two quarters. Based on data from the Central Statistics Agency (*BPS, Badan Pusat Statistik*), economic growth in the fourth quarter of 2020 was minus 2.19 percent compared to minus 3.4 percent the previous quarter and minus 5.3 percent during the second quarter. For the year, Indonesia's economy contracted by 2.07 percent. The outlook appears more optimistic for 2021. The Organization for Economic Cooperation and Development (OECD) has estimated growth to reach 4.9 percent, a forecast that some Indonesian-based economists consider bullish given the relatively slow rate of vaccinations to date.

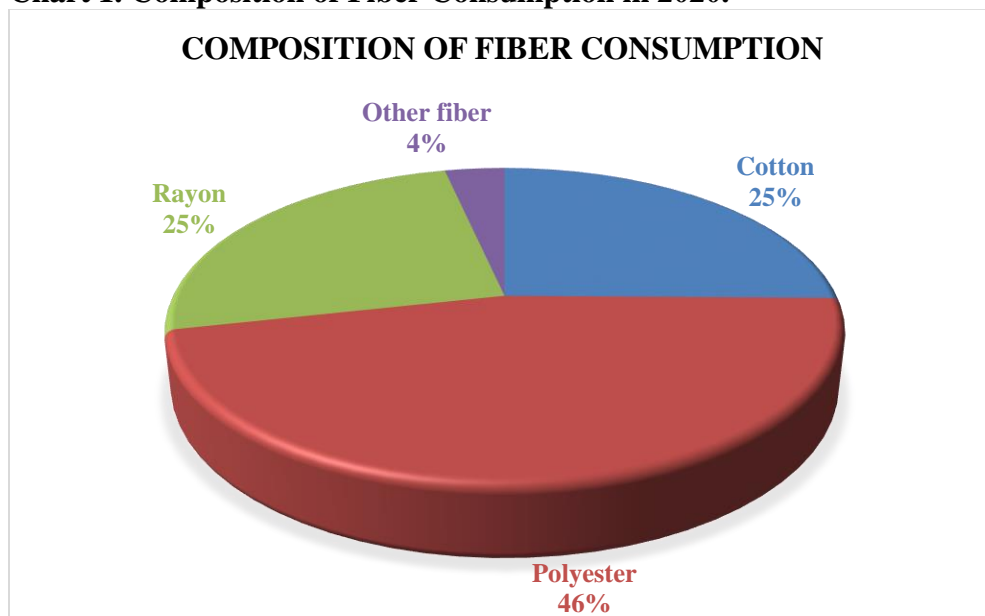
Comparatively, the textile and apparel industry has underperformed the overall economy. BPS data indicates GDP of the textile and apparel industry fell by 10.49 percent in the fourth quarter of 2020, a worse performance than the 9.3 percent decline experienced in the second quarter, during the peak of social distancing restrictions. For the year, Indonesia's textile and products industry contracted by minus 8.88 percent compared to 2019. In addition to the domestic slowdown, the industry's troubles demonstrate significant decline in demand from major export destination countries. The Ministry of Industry (MOI) has reported that during the period of January to September 2020, the export value of textiles and textile products fell by 19 percent compared to a decrease of 2.14 percent during the same period of 2019.

Table 1. Indonesian Textile Industry Profile and Performance (2020)

Sector	Fiber Making (Man Made)	Spinning	Weaving, Dyeing, Printing, and Finishing	Garments	Other Textile
Number of Companies					
- Large Scale	33	294	1,540	2,995	765
- Small and Medium Scale	14		131,000	400,000	
Installed Capacity (MMT)	3.73	3.97	3.13	2.18	0.68
Running Capacity (%)	49.9	63.98	41.95	56.7	43.9
Manpower	33,087	244,059	678,360	1,788,265	89,507
Export (\$ million)	0.96	2.13	1.07	8.12	0.56
Import (\$ million)	0.68	0.68	4.72	0.83	1.23
Balance (\$ million)	1.63	1.45	1.63	7.29	0.67

Source: Ministry of Industry, Nov 2020.

Cotton fiber is usually used to produce apparel for middle-upper income consumers, while rayon, polyester, and fiber mixtures are used for apparel for middle-lower middle income consumers. As the economy has slowed, depressed consumer purchasing power, higher prices of imported cotton compared to locally produced rayon and polyester, and longer lead time to purchase imported cotton have driven some small mills to switch to polyester and rayon from cotton. Measures to curb the spread of COVID-19 by encouraging home-based school, work, and religious activities have led consumers to wear more casual and comfortable clothes, another boost to man-made fibers. Indonesia's 2020 composition of fiber consumption is estimated in Chart 1 below.

Chart 1. Composition of Fiber Consumption in 2020.

Source: Industry, processed by FAS/Jakarta

Despite a recovering economy and forecasted growth, lower margins for cotton and increased demand for man-made fibers is expected to limit cotton spinners running capacity in 2021 to 70 percent.

Aside from pandemic-related pressures, the industry continues to face lingering challenges related to energy costs and labor. Presidential Regulation No 40/2016 on Natural Gas Pricing sets gas prices for all industries at U.S. \$6 per MMBTU (*Metric Million British Thermal Unit*). Although still below regional competitor Vietnam, which is recorded at \$7 per MMBTU, to spur growth and increase overall competitiveness for Indonesian products the local industry has targeted prices in line with Malaysia (\$4 per MMBTU) and Singapore (\$5 per MMBTU).

Labor costs remain a primary concern for local industry. Law No. 13/2003 on Employment states the minimum wage can consist of the minimum wage based on the province or district/city or the minimum wage can be based on the sector in the province or district/city (*UMSK, Upah Minimum Sektoral Kabupaten*). The district/city sectoral minimum wage can be determined by the provincial governor based on an agreement between employers' association and labor union in the related sector, however the sectoral minimum wage must not be lower than the provincial or district/city minimum wage. After increasing 8.5 percent in 2020, labor costs in 2021 have also increased in several key textile producing areas (see Table 2). In some textile industrial districts such as Bekasi, West Java, the industry association and labor union agreed to set a textile sector minimum wage. The UMSK in Bekasi in 2020 for textile sector was set at Rp. 4,502,037 (\$311) per month. Due to the pandemic and economic slowdown, the Ministry of Manpower has encouraged provincial offices to maintain the provincial minimum wage for 2021 unchanged from 2020. However, some provinces, including several with significant textile production, have increased their minimum wage.

Table 2. Provincial Minimum Wage for 2021.

Provinces	2020	2021	Change
Aceh	Rp 3,165,031	Rp 3,165,032	
North Sumatera	Rp 2,499,423	Rp 2,499,424	
West Sumatera	Rp 2,484,041	Rp 2,484,042	
Riau	Rp. 2,888,563	Rp 2,888,564	
Riau Island	Rp 3,005,383	Rp 3,005,384	
Jambi	Rp 2,630,162	Rp 2,630,163	
South Sumatera	Rp 3,043,111	Rp 3,043,111	
Bangka Belitung	Rp 3,230,023	Rp 3,230,024	
Bengkulu	Rp 2,040,406	Rp 2,215,000	0,09%
Lampung	Rp 2,432,001	Rp 2,432,002	
West Java	Rp 1,810,351	Rp 1,810,351	
Jakarta (Java)	Rp 4,267,349	Rp 4,416,186	3,27%
Banten (Java)	Rp 2,460,996	Rp 2,460,997	
Central Java	Rp 1,742,015	Rp 1,798,979	3,27%
Yogyakarta (Java)	Rp 1,704,608	Rp 1,765,000	3,54%
East Java	Rp 1,768,777	Rp 1,868,777	5,50 %
Bali	Rp 1,768,777	Rp 1,868,777	5,50 %

Source: Provincial websites, compiled by FAS/Jakarta

Aside from energy and labor costs, aging machinery remains a key competitive constraint on industry growth. Lower margins and cash-flow challenges as a result of the global economic slowdown have further inhibited companies from re-investing in new machinery, continuing a cycle of greater inefficiency and higher production costs.

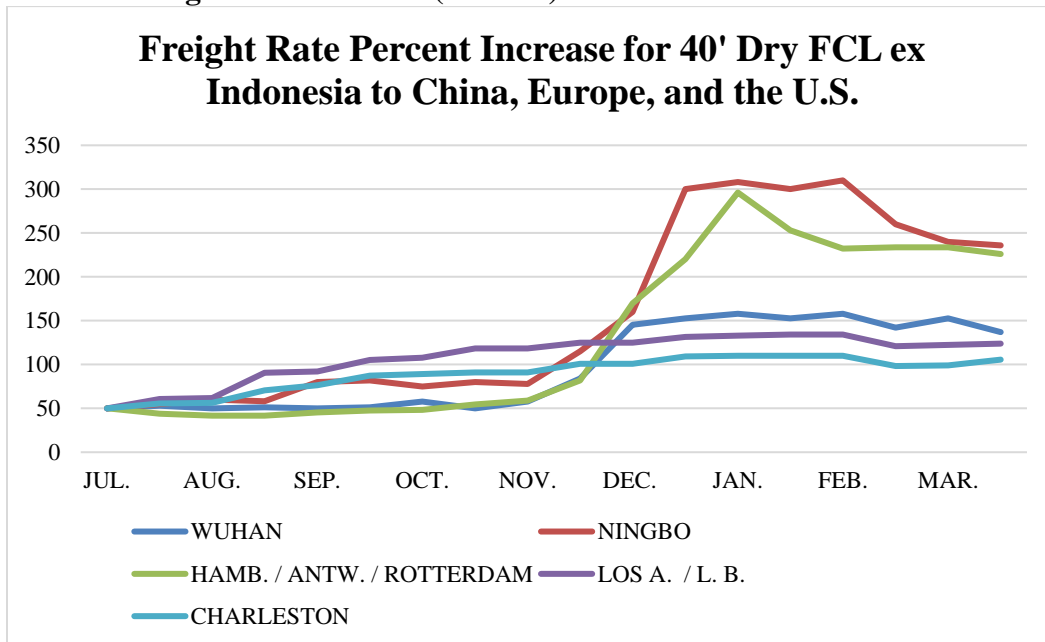
Considering the above-mentioned factors, 2020/21 cotton consumption is estimated to decrease by 20 percent to 2.0 million bales compared to 2.5 million bales consumed in 2019/20. A global and domestic economic recover alongside increased vaccinations is forecast to increase cotton consumption 2.450 million bales in 2021/22.

Trade

In line with reduced consumption, 2020/21 cotton imports are expected to decline by 12 percent to 2.2 million bales compared to 2.512 million bales imported in 2019/20. Imports are forecast to increase to 2.3 million bales in 2021/22 on higher domestic and global demand as major economies increase vaccination rates and consumption rebounds.

Demand volatility, especially during the second and third quarter of 2020, has combined with surging cotton prices to create forecast challenges for traders and spinners. Difficulties are being compounded by pandemic-related changes in consumer demand that have upended the container traffic supply chain, causing significant delays in the arrival of cotton to Indonesia. The shortage of containers is impacting both ends of Indonesia’s textile industry as delayed shipments cause production planning challenges and higher freight costs increase costs of imported raw materials. Likewise, on the export side, textile and textile product exporters are having wait longer to secure empty containers and pay significantly higher freight to move their goods to overseas markets.

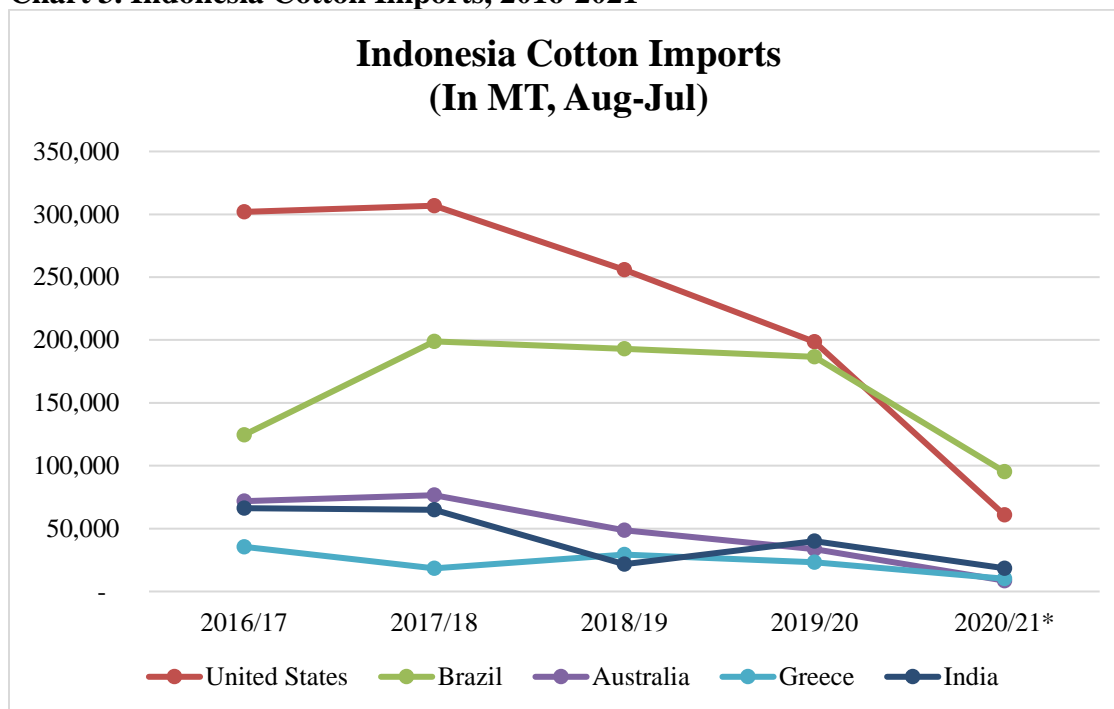
Chart 2. Freight Rate Increase (Percent) to Select Destinations



Source: Industry Sources/FAS Jakarta

During the period of August 2020 to January 2021, Brazil overtook the U.S. as Indonesia’s largest cotton supplier, raising its market share to 43 percent with a volume of 437,000 bales. The United States and India followed with 27 percent (279,000 bales) and 8 percent (85,000 bales), respectively.

Chart 3. Indonesia Cotton Imports, 2016-2021



Source: Trade Data Monitor, March 2021.

Indonesia cotton yarn exports in 2020 declined by 7.2 percent to 177,413 tons from the 191,250 tons in 2019. In 2020, China received the majority of exports (65 percent), followed by South Korea (7.16 percent), and Japan (5.92 percent). Meanwhile, cotton fabric exports in 2020 increased slightly, reflecting stronger demand from the United States, Portugal, and the Netherlands. Exports of cotton fabrics in 2020 reached a total of 13,173 tons compared to 13,068 tons exported in 2019. The main destinations for cotton fabrics are Japan (43 percent), the United States (13 percent), Belgium (7 percent) and Portugal (5 percent).

U.S. policy to ban import of cotton and cotton products derived from cotton produced in Xinjiang Province is providing greater opportunity for Indonesian spinners to export cotton yarn to China. Industry sources have reported increased demand from China for Indonesian yarn as the country switches to utilize Chinese yarn in its domestic market and imported yarn to produce fabrics and other textile products for export. Indonesian cotton yarn exports to China during the period of October to December 2020 reached 37,869 tons, compared to the 32,747 tons during the same period of 2019.

Stocks

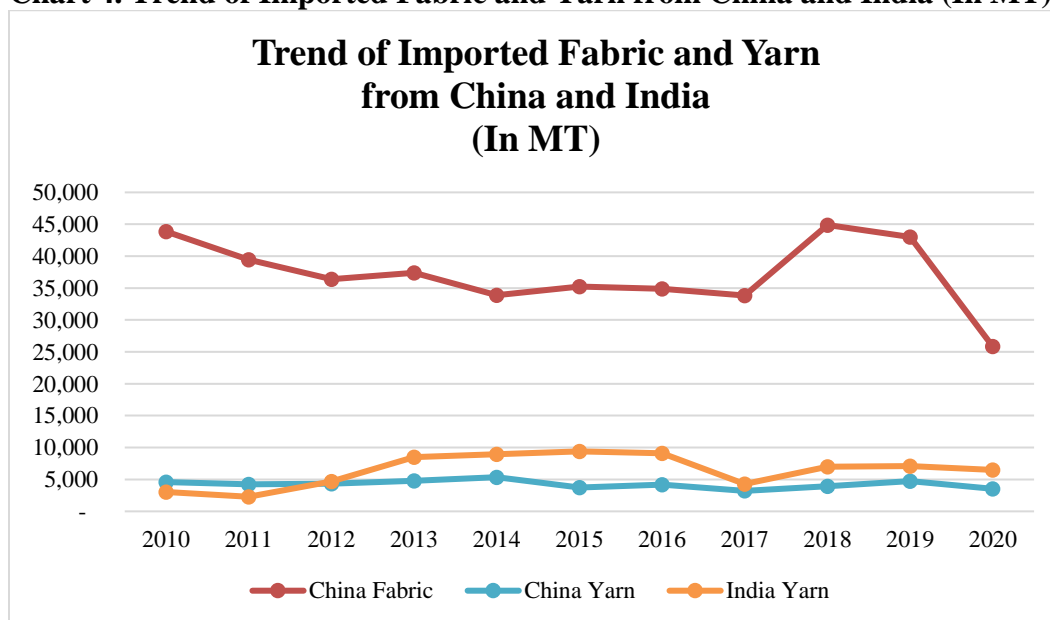
Lower demand and reduced running capacity has caused local spinners to source raw materials on an as-needed basis. Difficulties in selling products due to depressed consumer purchasing power and slower demand from export destination countries has led to higher inventory at mills. Therefore, 2020/21

ending stocks are estimated to increase to 740,000 bales compared to the previous estimate of 541,000 bales. A growing economy and higher running capacity are forecast to reduce 2021/22 ending stocks to 587,000 bales.

Policy

Government Regulation no 4/ 2015 (*PP, Peraturan Pemerintah*) on National Industry Development Master Plan (*RIPIN, Rencana Induk Pengembangan Industri Nasional*) is a master plan implemented through the National Industrial Policy which serves as the reference for long term industrial planning and development. Based on the parameters set forth in the RIPIN, the textile and textile industry is categorized as a priority sector and focus is given towards the development of sustainable fibers by reducing the use imported cotton through substitution of locally produced synthetic fibers. The Ministry of Industry has recently reaffirmed this initiative, announcing targets to reduce the import value of cotton from Rp. 23.78 trillion (\$1.6 billion) in 2020 to Rp. 10.53 trillion (\$728 million) in 2022. It remains unclear what specific policies may be implemented to achieve this reduction, however the GOI is providing incentives to increase production of rayon and polyester. These incentives includes the implementation of Anti-Dumping Import Duty for Spin Drawn Yarn (SDY) by the issuance of Minister of Finance Regulation (PMK) No. 115/2019. The PMK is valid for 3 years from its effective date in August, 2019. The PMK applies additional import duty rates of 5.4 percent to 9.4 percent and targets products from India, China, and Taiwan. The GOI has also implemented PMK No. 114/2019 on safeguard duties for Polyester Synthetic Fiber (PSF) from China, India and Taiwan. The duties are also valid for 3 years from August, 2019. Currently, GOI is proposing to implement safeguards duties on Drawn Textured Yarn (DTY), again claiming unfair trade practices from China and India.

Chart 4. Trend of Imported Fabric and Yarn from China and India (In MT)



Source: TDM, March 2021.

Following a completion of a safeguard investigation on carpets and other textile floor coverings notified to WTO on June 12, 2020, on February 2, 2021, Ministry of Finance also issue MOF regulation number

10/2021 on the Imposition of Safeguards Duty on Imports of Carpets and Other Textile Floor Coverings. The regulation was issued after the results of the investigation found evidence of threats to domestic industry due to a surge of carpet and other textile flooring imports. All products under the HS Code 57 are subject to the regulation. The safeguard duty is an addition to general import duty (Most Favored Nation); or additional preference based on import duties for goods traded under international trade agreement schemes. The safeguard duty is effective for three years under the following conditions:

Table 3. Safeguard Duty Timeline

No.	Effective Period	Amount of Safeguard Duty
1.	First year, effective from February 17, 2021	Rp. 85,679 (\$5.90) per meter square
2.	Second year, effective immediately after the end of the first year period.	Rp. 81,673 (\$5.60) per meter square
3.	Third year, effective immediately after the end of the second year period.	Rp. 78,027 (\$5.40) per meter square

Source: MOF 10/2021.

The safeguard duty is imposed on imports of carpet and other textile floor coverings from all countries except countries listed on the [appendix](#) of the regulation. Imports from the exempted countries must be completed with Certificate of Origin. The regulation appears to target imports of carpets and other textile floor coverings from China, Japan, and Turkey which are not listed on the regulation's appendix.

Following the investigation on imports of carpet and other textile floor coverings, Indonesia also notified WTO on the safeguard investigation on imports of article of apparels and clothing accessories on October 1, 2020. The investigation was initiated based on a proposal from Indonesia Textile Association (*API, Asosiasi Pertekstilan Indonesia*) which cited serious losses or the threat of serious losses to domestic industries as a result of the surge in imports of the goods. Subjects of the investigation are all clothing and clothing accessories under the 4 digit HS Codes of: 6101, 6102, 6103, 6104, 6105, 6106, 6109, 6110, 6111, 6117, 6201, 6202, 6203, 6204, 6205, 6206, 6209, and 6214. The descriptions and HS numbers are in accordance with the Indonesian Customs Tariff Book (BTKI) 2017. The investigation is still ongoing.

Marketing

Cotton Council International remains active in the market. The U.S. Cotton Protocol and Cotton USA logo have provided customer confidence in using US cotton as the raw material for spinning. Further outreach on similarities between the U.S. Cotton Protocol compared to the Better Cotton Initiative (BCI) is necessary. Mills who export to markets and customers that require the BCI standard are still hesitant to express equivalency between the two standards. Close engagement with the industry and regular updates on US cotton crop quality and technology as well as fashion trends in domestic and international markets have proven successful in developing and sustaining interest in US cotton.

Statistical Tables

Table 4. PSD Cotton (HS Code 5201) in bales

Cotton Market Begin Year Indonesia	2019/2020		2020/2021		2021/2022	
	Aug 2019		Aug 2020		Aug 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3	0	3	0	3
Area Harvested	3	2	3	2	0	2
Beginning Stocks	532	532	543	543	0	740
Production	3	3	3	2	0	2
Imports	2512	2512	2900	2200	0	2300
MY Imports from U.S.	0	1100	0	600	0	650
Total Supply	3047	3047	3446	2745	0	3042
Exports	4	4	5	5	0	5
Use	2500	2500	2900	2000	0	2450
Loss	0	0	0	0	0	0
Total Dom. Cons.	2500	2500	2900	2000	0	2450
Ending Stocks	543	543	541	740	0	587
Total Distribution	3047	3047	3446	2745	0	3042
Stock to Use %	21.69	21.69	18.62	36.91	0	23.91
Yield	218	327	218	218	0	218

(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)

Note: last column of each marketing year is not official USDA data.

Table 5. PSD Cotton (HS Code 5201) IN MT

Cotton Market Begin Year Indonesia	2019/2020		2020/2021		2021/2022	
	Aug 2019		Aug 2020		Aug 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3	0	3	0	3
Area Harvested	3	2	3	2	3	2
Beginning Stocks	115,830	115,830	118,225	118,225	-	161,118
Production	653	653	653	435	-	435
Imports	546,929	546,929	631,407	478,998	-	500,771
MY Imports from U.S.	-	239,499	-	130,636	-	141,522
Total Supply	663,412	663,412	750,285	597,659	-	662,324
Exports	871	871	1,089	1,089	-	1,089
Use	544,316	544,316	631,407	435,453	-	533,430
Loss	-	-	-	-	-	-
Total Dom. Cons.	544,316	544,316	631,407	435,453	-	533,430
Ending Stocks	118,225	118,225	117,790	161,118	-	127,805
Total Distribution	663,412	663,412	750,285	597,659	-	662,324
Stock to Use %	21.69	21.69	18.62	36.91	0	23.91
Yield	47,405	71,107	47,405	47,405	-	47,405

Note: Last column of each Marketing Year is not official USDA data.

TRADE MATRIXES

Table 6. Cotton Export Trade Matric (MY 2019 - 2021)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton, HS Code 5201		
Time Period	Aug-Jul	Units:	MT
Exports for:	2019/20		2020/21*
U.S.	0	U.S.	0
Others		Others	
Bangladesh	676	Bangladesh	653
India	123	Vietnam	41
Vietnam	71	Malaysia	7
Malaysia	22		
Total for Others	892		701
Others not Listed	3		0
Grand Total	895		701

Source: Trade Data Monitor

Note: *) Only for the period of Aug 2020 - Jan 2021.

Table 7. Cotton Import Trade Matric (MY 2019 – 2021)

Country	Indonesia		
Commodity	Cotton		
Time Period	Aug - Jul	Units:	1,000 MT
Imports for:	2019/20	Imports for:	2020/21*
U.S.	198	U.S.	61
Others		Others	
Brazil	187	Brazil	97
India	40	India	18
Australia	34	Greece	10
Greece	23	Australia	9
Argentina	15	Cote d'Ivoire	9
Cote d'Ivoire	10	Argentina	7
Mali	5	Mexico	2
Mexico	5	Mozambique	1
Cameroon	4	Paraguay	1
Burkina Faso	4		
Mozambique	3		
Pakistan	3		
Spain	2		
Paraguay	2		
Singapore	2		
Total for Others	339	Total for Others	154
Others not Listed	10	Others not Listed	7
Grand Total	547	Grand Total	222

Source: Trade Data Monitor

Note: *) Only for the period of Aug 2020 - Jan 2021.

Table 8. Cotton Yarn Export Trade Matrix (CY 2019 – 2020)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2019		2020
U.S.	1		1
Others		Others	
China	135	China	115
South Korea	14	South Korea	13
Japan	13	Bangladesh	11
Bangladesh	9	Japan	10
Portugal	1	Honduras	6
Vietnam	4	Hong Kong	2
South Africa	1	Vietnam	2
Thailand	1	Portugal	2
		Egypt	1
Total for Others	178	Total for Others	162
Others not Listed	12	Others not Listed	14
Grand Total	191	Grand Total	177

Source: Trade Data Monitor.

Table 9. Cotton Yarn Import Trade Matrix (CY 2019 – 2020)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2019		2020
U.S.	0	U.S.	0
Others		Others	
India	7	India	6
China	5	China	4
Vietnam	3	Vietnam	3
South Korea	2	South Korea	2
Total for Others	17	Total for Others	15
Others not Listed	3	Others not Listed	2
Grand Total	20	Grand Total	17

Source: Trade Data Monitor.

Table 10. Cotton Fabric Export Trade Matrix (CY 2019 – 2020)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT		
Time Period	Jan-Dec		
	2019		2020
U.S.	1	U.S.	2
Others		Others	
Japan	7	Japan	6
		Belgium	1
Total for Others	7	Total for Others	7
Others not Listed	5	Others not Listed	4
Grand Total	13	Grand Total	13

Source: Trade Data Monitor.

Table 11. Cotton Fabric Import Trade Matrix (CY 2019 – 2020)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan - Dec		
Exports for:	2019	Exports for:	2020
U.S.	0	U.S.	0
Others		Others	
China	43	China	26
Hong Kong	6	Hong Kong	4
Pakistan	3	Malaysia	3
South Korea	3	Pakistan	2
India	2	South Korea	2
Taiwan	1	India	1
Thailand	1		
Vietnam	1		
Total for Others	60	Total for Others	38
Others not Listed	2	Others not Listed	3
Grand Total	62	Grand Total	41

Source: Trade Data Monitor.

Table 12. Exchange Rate (In Rp/\$1)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	13,413	13,707	13,756	13,877	13,951	14,404	14,413	14,711	14,929	15,227	14,339	14,481
2019	14,072	14,062	14,244	14,268	14,362	14,141	13,913	14,237	14,174	14,008	14,102	13,901
2020	13,662	14,234	16,367	15,157	14,733	14,302	14,653	14,554	14,918	14,690	14,187	14,105
2021	14,084	14,229	14,459									

Source: Bank of Indonesia.

Note: Exchange rate is Rp. 14459/\$1 in March 2021.

Attachments:

No Attachments