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Report Name: Cotton and Products Update

Country: Indonesia

Post: Jakarta

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Report Highlights:

Indonesia cotton consumption for 2019/20 has declined to a 10-year low of 2.4 million bales due to weaker domestic and overseas demand related to COVID-19. The U.S. has maintained its position as Indonesia's largest supplier of cotton, accounting for 36 percent of imports.

Production

Indonesia produces less than one percent of domestic demand and remains dependent on imports.

Consumption

Indonesia's consumption of textile and textile products continues to be adversely affected by COVID-19. Domestic lockdowns and large-scale social distancing restrictions have disrupted local demand as consumers spend more time at home and away from shopping centers. Negative growth in the second and third quarter has also weakened consumer purchasing power and led to declining consumer sentiment about the economy. The economic situation has decreased consumer spending while shifting spending towards food and health products. Consumption has also been hit by declines in tourism and cancellation of large events that often promote clothing sales.

Recent Bank of Indonesia Retail Sales Surveys for clothing demonstrate the sector's challenges. Second quarter sales declined 72.9 percent year-over-year, modestly improving to a 63.7 percent decline in the third quarter. In line with weaker domestic demand, Statistics Indonesia (BPS) reported the textile and garment industry contracted by 14.23 percent in the second quarter and 9.32 percent in the third quarter. The weak domestic sales have disproportionately impacted those manufacturers oriented towards the domestic market, while those able to export have fared better as overseas demand for personal protective equipment (PPE), such as masks and gowns, has cushioned the bottom line. For more information on the impacts of COVID-19 on the textile sector, please refer to [ID2020-0027](#).

Weaker domestic demand, competition with locally produced synthetic fibers (see Trade section), and reduced capacity utilization is expected to reduce overall cotton consumption. Post revises 2019/20 cotton consumption to 2.4 million bales compared to 2.5 million bales previously forecast. Post forecasts 2020/21 consumption to remain below pre-pandemic levels at 2.9 million bales as weaker domestic and overseas demand are expected to continue well into 2021.

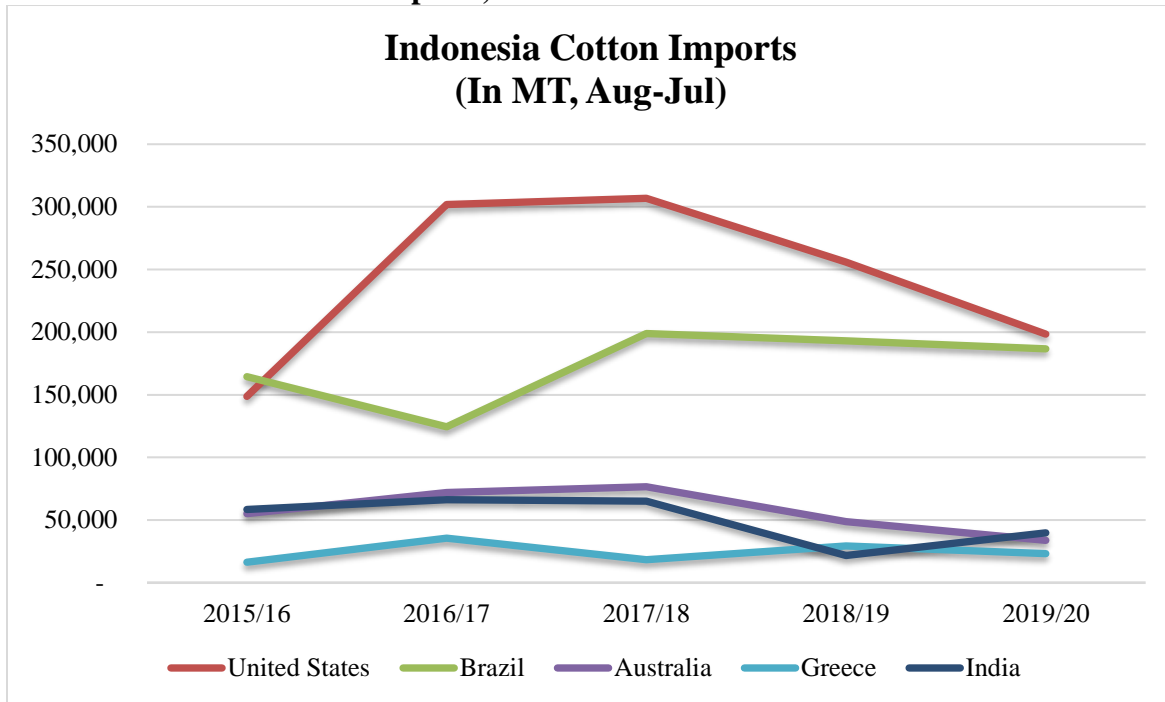
Trade

The Ministry of Industry has reported that 33 synthetic fiber manufacturers with a total production capacity of 3.31 million tons are currently operational in Indonesia. Among other products, these manufacturers are expected to produce 800,000 tons of rayon in 2020. Industry sources report that supply chain and cash flow challenges for small mills as a result of COVID-19 have led some to switch production to locally produced rayon and synthetic fibers. Combined with lower overall demand, 2019/20 cotton imports are decreased to 2.5 million bales. U.S. cotton imports maintained their top position in the market, reaching 911,630 bales in 2019/20, or 36 percent market share. Brazil and India followed with 34 and 7 percent, respectively

Indonesia's milling industry remains hopeful for a recovery in demand during the first-half of 2021 and received welcome news in October when the U.S. extended Indonesia's benefits under the Generalized System of Preferences (GSP) trade program. Although not applicable to many textile and garment products, retaining GSP maintained Indonesia's preferential duties on select textile exports with those of competitors. It also served as a boost for the Government of Indonesia (GoI), which has sought to

attract foreign investment, including in the textile sector. Accordingly, Post forecasts Indonesia cotton imports to increase to 2.9 million bales in 2021/20.

Chart 1. Indonesia Cotton Imports, 2015-2020.



Source: Trade Data Monitor, November 2020.

In addition to declining imports of cotton, Indonesia also experienced declining imports of cotton yarn and cotton fabrics. From January through August imports of cotton yard declined 8.6 percent to 11,000 tons and imports of cotton fabrics declined 36.5 percent to 26,000 tons. Cotton yarn imports originated from India (40 percent), China (22 percent), South Korea (13 percent), and Vietnam (12 percent), while cotton fabrics were sourced from China (60 percent), Hong Kong (9 percent), Malaysia (7 percent), and Pakistan (7 percent).

Following a sharp decline in the second quarter, the Ministry of Industry has reported export performance of the textile industry (with a considerable boost from PPE exports) from January-July 2020 has exceeded \$ 6.15 billion, near 2019 levels. Indonesian exports of cotton yarn during the same period reached 107,000 tons, a decreased of 18.14 percent compared to 2019. China received the majority of exports (64 percent), followed by South Korea (7 percent), and Bangladesh (6 percent). Meanwhile, cotton fabric exports during the period reached 8,500 tons, a decrease of 3.7 percent compared to 2019. Main destinations for cotton fabrics were Japan (45 percent), the United States (13 percent), and Portugal (4 percent).

Stocks

Local spinners source raw materials on an as-needed basis. Due to low local and international demand capacity utilization has declined to 80 percent, increasing ending stocks to 643,000 bales in 2019/20. In

line with an expected increase of running capacity, ending stocks are forecast to marginally decline to 641,000 bales in 2020/21.

Marketing

Following more than two years of review, on October 30, 2020 the United States government through the United States Trade Representative (USTR) officially announced the extension of Indonesia's trade benefits under the Generalized System of Preferences (GSP). Although GSP only impacts select categories of textile products, the extension was well-received among Indonesia's textile and garment manufacturers who received preferential duties on approximately \$69 million of exports in 2019.

The Cotton Council International (CCI) has continued to engage in marketing activities despite in-person restrictions related to COVID-19. Recent events have delivered updates on the global cotton economy and the implementation of a U.S. Cotton Protocol, as well as a virtual fashion show and insights on Indonesian fashion trends. Additionally, textile manufacturers were able to visit with partners and buyers at the virtual meeting rooms.

Policy

In addition to challenges related to COVID-19, sales of textile and textile products in the local market have continued to face fierce competition from cheaper-priced imported products from China. The condition worsened following the issuance in October 2019 of Ministry of Trade Regulation (*Permendag*) Number 77/2019 concerning Provisions for the Import of Textiles and Textile Products. The regulation allowed companies unable to work with a manufacturer to receive a recommendation or permit for textile imports. Such companies could immediately sell the imported textile to the domestic market. To ease the burden, on May 27, 2020, the Ministry of Finance issued regulation number 55/2020 on Imposition of Safeguard Measures Import Duty against the Import of Fabric Products. The safeguard duties imposed on cotton fabric is as follows:

Table 1. Safeguard Import Duty on Cotton Fabric Products Imports (Rp. /Meter)

No.	HS Code	Safeguard Import Duty (Rp./meter)		
		Phase I (May 27 – Nov 8, 2020)	Phase II (Nov 9, 2020 – Nov 8, 2021)	Phase III (Nov 9, 2021 – Nov 8, 2022)
1	5208.12.00	1,846	1,781	1,718
2	5208.32.00	5,713	5,512	5,318
3	5208.49.00	5,713	5,512	5,318
4	5208.51.90	3,571	3,445	3,324
5	5208.52.90	5,713	5,512	5,318
6	5209.12.00	3,691	3,561	3,436
7	5209.22.00	3,691	3,561	3,436
8	5209.29.00	3,691	3,561	3,436
9	5209.32.00	11,426	11,023	10,635
10	5209.39.00	11,426	11,023	10,635
11	5209.42.90	11,426	11,023	10,635
12	5209.51.90	11,426	11,023	10,635
13	5209.59.00	11,426	11,023	10,635
14	5210.29.00	2,051	1,978	1,909
15	5210.39.00	6,348	6,124	5,909
16	5210.41.90	6,348	6,124	5,909
17	5210.51.90	6,348	6,124	5,909
18	5211.11.00	3,691	3,561	3,436
19	5211.19.00	3,691	3,561	3,436
20	5211.20.00	3,691	3,561	3,436
21	5211.42.00	11,426	11,023	10,635
22	5211.43.00	11,426	11,023	10,635
23	5211.49.00	11,426	11,023	10,635
24	5212.11.00	1,846	1,781	1,718
25	5212.24.00	11,426	11,023	10,635
26	5212.25.90	11,426	11,023	10,635

The imposition of the safeguard import duty against the imported fabric products serves as:

1. Additional general import duties (Most Favored Nation); or
2. Additional preferential import duty based on the applicable international goods trade agreement, in the event that the import is made from a country that is included in the said trade agreement scheme and complies with the provisions of the international trade scheme.

The regulation will be valid from the stipulation date of May 27, 2020 until November 8, 2020. The regulation is expected to curb competition from cheaper priced imported textile and textile products in the domestic market. Notably, China is not included as one of the countries excluded from the measures.

II. Statistical Tables

Table 2. PSD Cotton (HS Code 5201) in bales

Cotton Market Begin Year	2018/2019		2019/2020		2020/2021	
	Aug 2018		Aug 2019		Aug 2020	
Indonesia	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	634	634	532	532	543	643
Production	3	3	3	3	3	2
Imports	3051	3051	2512	2512	2900	2900
MY Imports from U.S.	0	1175	0	912	0	1050
Total Supply	3688	3688	3047	3047	3446	3545
Exports	6	6	4	4	5	4
Use	3150	3150	2500	2400	2900	2900
Loss	0	0	0	0	0	0
Total Dom. Cons.	3150	3150	2500	2400	2900	2900
Ending Stocks	532	532	543	643	541	641
Total Distribution	3688	3688	3047	3047	3446	3545
Stock to Use %	16.86	16.86	21.69	26.75	18.62	22.07
Yield	218	327	218	327	218	218

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

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

Table 3. PSD Cotton (HS Code 5201) IN MT

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Indonesia	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	138039	138039	115830	115830	118225	139998
Production	653	653	653	653	653	435
Imports	664283	664283	546929	546929	631407	631407
MY Imports from U.S.	0	225829	0	198566	0	228613
Total Supply	802975	802975	663412	663412	750285	771840
Exports	1306	1306	871	871	1089	871
Use	685838	685838	544316	522543	631407	631407
Loss	0	0	0	0	0	0
Total Dom. Cons.	685838	685838	544316	522543	631407	631407
Ending Stocks	115830	115830	118225	139998	117790	139563
Total Distribution	802975	802975	663412	663412	750285	771840
Stock to Use %	16.86	16.89	21.69	26.75	18.62	22.07
Yield	47405	71107	47405	71107	47405	47405

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

TRADE MATRIXES

Table 4. Cotton Export Trade Matrix (MY 2018 - 2019)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton, HS Code 5201		
Time Period	Aug-Jul	Units:	MT
Exports for:	2018/19		2019/20
U.S.	1	U.S.	0
Others		Others	
Bangladesh	608	Bangladesh	676
Vietnam	365	India	123
India	180	Vietnam	71
Malaysia	69	Malaysia	22
Taiwan	55		
Japan	37		
Turkey	19		
China	2		
Total for Others	1335		892
Others not Listed	2		3
Grand Total	1338		895

Source: Trade Data Monitor

Table 5. Cotton Import Trade Matrix (MY 2018 – 2019)

Country	Indonesia		
Commodity	Cotton		
Time Period	Aug - Jul	Units:	1,000 MT
Imports for:	2018/19	Imports for:	2019/20
U.S.	256	U.S.	198
Others		Others	
Brazil	193	Brazil	187
Australia	49	India	40
Greece	29	Australia	34
Argentina	28	Greece	23
India	22	Argentina	15
Cote d'Ivoire	13	Cote d'Ivoire	10
Turkey	10	Mali	5
Tanzania	9	Mexico	5
Burkina Faso	7	Cameroon	4
Mali	6	Burkina Faso	4
Mexico	5	Mozambique	3
Togo	4	Pakistan	3
Mozambique	4	Spain	2
Pakistan	4	Paraguay	2
Benin	3	Singapore	2
Uganda	2		
Paraguay	2		
Total for Others	390	Total for Others	339
Others not Listed	18	Others not Listed	10
Grand Total	664	Grand Total	547

Source: Trade Data Monitor

Table 6. 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	68
South Korea	14	South Korea	8
Japan	13	Bangladesh	7
Bangladesh	9	Japan	7
Portugal	1	Honduras	3
Vietnam	4		
South Africa	1		
Thailand	1		
Total for Others	178	Total for Others	93
Others not Listed	12	Others not Listed	13
Grand Total	191	Grand Total	107

Source: Trade Data Monitor.

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

Table 7. 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	5
China	5	China	3
Vietnam	3	South Korea	2
South Korea	2	Vietnam	1
Total for Others	17	Total for Others	11
Others not Listed	3	Others not Listed	1
Grand Total	20	Grand Total	12

Source: Trade Data Monitor.

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

Table 8. 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.	1
Others		Others	
Japan	7	Japan	4
Total for Others	7	Total for Others	4
Others not Listed	5	Others not Listed	4
Grand Total	13	Grand Total	9

Source: Trade Data Monitor.

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

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

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan - Dec		
	2019	Exports for:	2020*
U.S.	0	U.S.	0
Others		Others	
China	43	China	16
Hong Kong	6	Hong Kong	2
Pakistan	3	Malaysia	2
South Korea	3	Pakistan	2
India	2	South Korea	1
Taiwan	1		
Thailand	1		
Vietnam	1		
Total for Others	60	Total for Others	23
Others not Listed	2	Others not Listed	3
Grand Total	62	Grand Total	26

Source: Trade Data Monitor.

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

Table 10. Exchange Rate (In Rp/\$1)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	13,343	13,347	13,321	13,327	13,321	13,319	13,323	13,351	13,492	13,572	13,514	13,548
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	

Source: Bank of Indonesia

Attachments:

No Attachments