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## Indonesia

### Cotton and Products

### Cotton Update

**2001**

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#### **Report Highlights:**

**Indonesia's cotton imports rose to an estimated 570,000 tons during marketing year (MY) 2000/01, but are forecast to decline during the current marketing year. The local textile industry continues to be plagued by weak demand in its key export markets, as well as unstable conditions following the 11 September events. While U.S. market share grew in MY 2000/01, trade financing remains a constraint. Thus, continuation of the GSM-102 Program will be pivotal to maintaining U.S. market share.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Jakarta [ID1], ID

## **IMPORTS**

Based on a survey of traders and end-users, marketing year (MY) 00/01 (August/July) imports have been revised upward to 570,000 MT or 2.6 million bales. In a departure from Post's previous reports, the MY 00/01 import estimate does not reflect data published by the Center Bureau of Statistics (BPS), because by all accounts, the BPS data is much higher than the actual level of cotton imports.

Based on faltering world textile demand and a slow-down in plant activity following the September 11 events, imports are forecast to decline to 2.5 million bales in MY01/02. While domestic textile demand has exhibited signs of recovery, Indonesia's cotton users continue to be plagued by the sluggish world economy, particularly in the U.S., Japan, and EU markets. Continued international political instability is also curbing prospects for Indonesia's textile sector. Reportedly, in recent months there have been reduced volume and cancellations of textile orders from major customers in US and Europe. In addition, several textile plants in Java laid-off workers in November and December. Furthermore, the weak Rupiah and the continued overall financial weakness of the sector hinders trade financing, especially for those textile and garment companies that are still being restructured following the 1997 financial crisis.

In MY00/01, U.S. market share is estimated to have increased from 21 percent to about 28 percent. Australia, meanwhile, remained the leading supplier, capturing about 46 percent of the market. China's market share, on the other hand, declined from 15 percent to 5 percent. U.S. cotton was very competitive in price and quality in MY00/01, and the GSM-102 credit guarantee program again played an important role in facilitating transactions for U.S. cotton purchases. GSM registrations for cotton during FY00/01 were US\$ 34.5 million. The continued availability of this program will be instrumental in maintaining U.S. market share in Indonesia.

## **CONSUMPTION**

In line with the increase of cotton imports in MY00/01, domestic cotton consumption during MY00/01 was up about 22 percent to 550,000 tons or 2.5 million bales. In view of the factors stated above regarding sluggish overall demand for textiles, consumption in MY01/02 is forecast to decrease about 4 percent from the previous marketing year. However, this is still a preliminary forecast, and indications are that consumption for MY01/02 could decline as much as 10 percent, with a commensurate drop in imports. Although world cotton prices are favorable, it is difficult to predict at this time how the domestic textile industry will perform in the near future. While, as outlined above, some factors are negatively affecting cotton import demand, reportedly polyester is being replaced by cotton as cotton prices are relatively competitive with polyester. As a result, there is a trend toward greater use of cotton in blends.

Exports of cotton yarn and fabric increased about 10 percent in the first 7 months of CY2001. However, as a result of the economic and political situations outlined above, exports for all of CY 2001 are estimated to have declined 10 percent. In addition, operating costs have been rising and textile products from China continue to compete fiercely with Indonesian products.

**POLICY**

After a long debate, the Government of Indonesia decided to retroactively apply a value added tax (VAT) of 10 percent on raw cotton imports starting from January 2001. Companies are complaining to Parliament about this tax, with some refusing to pay the back tax. This tax will likely just be passed on to end users and could erode the competitiveness of Indonesian textiles in the world market.

PSD Table				Units:	MT	
Country:	Indonesia					
Commodity:	Cotton					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		08/1999		08/2000		08/2001
Area Planted	0	27,000	0	30,000	0	30,000
Area Harvested	21,000	21,000	21,000	22,000	0	22,000
Beginning Stocks	52,254	39,850	57,697	18,300	59,656	18,300
Production	3,048	3,000	3,048	7,000	0	8,500
Imports	452,000	449,450	544,316	570,000	0	550,000
TOTAL SUPPLY	507,302	492,300	605,061	595,300	59,656	576,800
Exports	3,266	24,000	1,089	27,000	0	25,000
USE Dom. Consumption	435,453	440,000	533,430	540,000	0	520,000
Loss Dom. Consumption	10,886	10,000	10,886	10,000	0	10,000
TOTAL Dom. Consumption	446,339	450,000	544,316	550,000	0	530,000
Ending Stocks	57,697	18,300	59,656	18,300	59,656	21,800
TOTAL DISTRIBUTION	507,302	492,300	605,061	595,300	0	576,800

Note : Old data from FAS/Washington; New data from FAS/Jakarta

PSD Table						
Country:	Indonesia				Conversion	0.004593
Commodity:	Cotton				Units	Bales
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	27,000	0	30,000	0	30,000
Area Harvested	21000	21,000	21000	22,000	0	22,000
Beginning Stocks	240	183	265	84	274	84
Production	14	14	14	32	0	39
Imports	2076	2,064	2500	2,618	0	2,526
TOTAL SUPPLY	2330	2,261	2779	2,734	274	2,649
Exports	15	110	5	124	0	115
USE Dom. Consumption	2000	2,021	2450	2,480	0	2,388
Loss Dom. Consumption	50	46	50	46	0	46
TOTAL Dom. Consumption	2050	2,067	2500	2,526	0	2,434
Ending Stocks	265	84	274	84	274	100
TOTAL DISTRIBUTION	2330	2,261	2779	2,734	274	2,649

## Exchange Rates

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	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	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	11675	11375	11440	9525	8670	9675	10435	10430	10200

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.

Note: - August 2001 exchange rate is quoted for August 27, 2001.  
 - September 2001 exchange rate is quoted for September 28, 2001  
 - December 2001 exchange rate is quoted for December 26, 2001  
 - BPS data available up to March 2001.