Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/16/1998

GAIN Report #ID8081

Indonesia

Agricultural Situation

Food & Agricultural Situation -- Mid-October Update

1998

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

INDONESIA: FOOD AND AGRICULTURAL SITUATION -- MID-OCTOBER UPDATE

OVERVIEW

Beginning in late September and early October food prices in the major cities of Jakarta and Surabaya have softened slightly and an overall calmer situation has emerged. This was despite another spike in food prices overall as reported in the September inflation figures. Continued strong sales by the national logistics agency onto the market and increased harvest of the second rice crop are credited with contributing to increased supplies and less price pressure. However, the drastic curtailment of regular trade shipments, especially rice, to islands off Java may result in substantial prices hikes in these islands and spot shortages in upcoming months. The deregulation of imports of wheat, sugar and soybeans in early September are already having a dampening effect on prices for various reasons. Reduced demand is pulling flour prices down although serious bottlenecks have developed since a transition policy for the wheat owned by Bulog has not been announced. Soybean prices, currently well above the world level, are expected to fall as Bulog purchases as well as private sector imports are expected to significantly increase supplies in the short term.

The Food and Agricultural Organization released an updated report on the food situation in Indonesia which urges continued high levels of imports. Meanwhile import policy for rice by Bulog continues to fluctuate with strict tender procedures in September giving way to private deals reminiscent of earlier transactions. Indications are that a mix of tenders and direct purchases will continue over the coming months.

Exchange Rate: Rupiah/US$ on Period Ending Basis

1995: Rp. 2,308 = $US 1 1996: Rp. 2,383 = $US 1

Oct97	Nov97	Dec97	Jan98	Feb98	Mar98	Apr98	May98	Jun98	Jul98	Aug98	Sept98	Oct12
3275	3670	3648	6250	10250	8800	8660	11250	14750	13000	11200	10750	9025

WHEAT

Since the September 1 listing of the flour subsidies and the announced end of Bulog's involvement in wheat imports flour milling in Indonesia has slowed to a crawl. As the mills are carrying high stocks of government owned flour and wheat. There are several causes for this stock accumulation: 1) increased flour purchases prior to the earlier announced October 1 price increase and now being sold by distributors, 2) less flour is being traded as distributors fear looting or being labeled hoarders, and 3) Bulog has set the wholesale price of flour too high in the hope of trying to recoup past subsidies sending buyers to other (cheaper) sources, and 4) a decrease in the demand for flour due to the higher prices and the economic slowdown. Accumulated stocks and incoming wheat imports will likely result in a deferral of any nearby purchasing plans and lower wheat imports this year.

Bulog recently announced plans to auction flour to sell their flour over the next 5-7 months. The auction will reportedly be held on October 28 leaving sales into the market for September and October at about 50,000 mt each month compared to a more normal level of 200,000 mt. Details of the auction system are not complete but initial indications are that sealed bids will be accepted with a price ban specified. Bid packages are expected out on Tuesday, October 20. The price ban could result in few sales if the ban is held unrealistically above current international prices. However, the fact that the flour will be available in rupiah and will not require trade financing should enhance sales to larger enterprises. A special category of small lots is being set up for coops and small enterprises (8.75 ton minimum bid compared to 52.5 ton minimum for distributors and larger companies). Reports indicate that a special bid or negotiation procedure may be developed for the largest consumer, Indofood (approximately 30,000-40,000 mt/month of flour consumption).

RICE

September sales by Bulog into the market again totaled about 300,000 mt, unusually high for the this time of year (harvest). Imports also continues strong at about 398,000 mt. Total imports from January through mid-October now stand at 4.2 mmt. After an initial delay letters of credit on the contracts completed in the September tenders are beginning to be opened. Imports over the last three months of the calendar year are expected to total about 1.5-1.8 mmt. Bulog is reportedly pursuing both governement-to-government arrangements (eg. with Thailand, Vietnam, China and via funds available from the Islamic Development Bank) and tenders. Press reports indicate further tenders in October/November to cover deliveries in the first quarter of 1999.

The third scheduled estimate by the Central Bureau of Statistics pegs the 1998 rice production at 46.44 mmt, up slightly from the earlier estimate of 46.29 mmt. The change will not affect import decisions. Bulog stocks stood at 2.03 mmt at the close of September.

SOYBEANS

Reportedly, Bulog has more than 200,000 tons of soybeans in stocks, which should last for about four months. In addition, the recent conclusion of the 51,000 tons purchase under Title I (FY 98) makes total supplies sufficient to satisfy demand for the next five months during the upcoming holiday season (Ramadan, Christmas, New Year, Lebaran). Prices however have increased with Bulog now charging INKOPTI (Federation of Tempe and Tofu Makers Cooperatives) members Rp. 2,800/kg, substantially higher than the previous Rp. 1,800/kg price more closely reflecting Bulog costs as well as the overall increase in prices. Market prices are reported at Rp. 4,000 and even Rp. 5,000/kg. Retail prices of tofu and tempe have tended well above the Bulog soybean prices for the past few months. Tempe producers have passed price increases on via the a 25 percent reduction in the size of portions since May.

The lifting of the Bulog monopoly on soybean imports coupled with high prices has led to the immediate importation of small and large lots, even container loads, of soybeans and substantial trading interest in soybeans. With local prices well above the world market the attractiveness of imports will continue until prices fall to match increased supplies in the next several months.

POULTRY

The Indonesian Poultry Farmers Association (PPUI) reports that Bank of Indonesia (Central Bank) has allocated Rp. 35.5 billion for credit (under the KKPA scheme: credit program, usually with lower interest, for members) to 710 poultry smallholders to increase poultry meat production in an effort to revitalize the poultry sector. The interest rate is about 16 percent and the credit will be distributed through Bank Rakyat Indonesia (state owned). Each farmer will receive about Rp. 50 million (about $5,000 in the form of money sufficient to grow about 5,000 broilers). The prevailing interest rate for loans is between 60-70 percent.

As of today only 3 percent of the total amount allocated has been distributed to poultry producers/farmers. There are some concerns about which provinces will qualify for the poultry revitalization subsidy, PPUI officials are hoping that any farmer/producer could apply for credit directly to the appointed bank (without GOI approval and therefore political manipulation), based on previous business/production ability so that farmers with proven records could have a fair chance receiving the credit package.

PALM OIL

The 60 percent export tax on crude palm oil (CPO) has resulted in the slowing of official exports, while according to the industry, smuggling continues. Food use of palm oil is down almost 8 percent as high domestic prices are taking their toll on consumption. Total consumption is expected to drop to 2.8 mmt this year compared to 3.0 mmt last year. Reportedly, the hardest hit by the crisis rural population has been switching to a “home made” coconut oil, called klentik oil, made of fresh coconuts which can be found everywhere in the rural areas. .

SUGAR

The series of deregulations originally self-initiated by the Government of Indonesia (GOI) and later forwarded under the International Monetary Fund (IMF) reform packages now have been announced. As of September 2, 1998, the National Logistics Agency’s (Bulog) monopoly control over sugar has been eliminated. Indications are that Bulog will no longer import sugar although the new policy only opens up the market to the private trade and does not ban Bulog from future imports. Private traders are now allowed to import sugar and market it domestically. The policy was announced earlier than it was previously scheduled, October 1, 1998. The chief aim of the accelerated pace was to slash budget outlays for food subsidies on all commodities except rice. In the last few months subsidies on sugar, wheat flour and soybeans had mushroomed into a heavy budget burden. Under the new rules the importation of raw and/or white sugar is not subject to an import duty nor value added tax. In addition all formal and informal requirements on farmers for mandatory sugar cane plantings have been removed.

The continuation of the economic crisis, the hikes in sugar prices due to removal of subsidies and the uncertain economic outlook for the next 12 months have taken a toll on the 1997/98 consumption which now is estimated at 3.15 million tons, down 4.5 percent from our previous estimate. For MY 1998/99, consumption is expected to remain unchanged at 3.15 million tons.

Official data show imports for MY97/98 totaled 921,000 tons, consisting of 718,000 tons raw and 203,000 tons refined sugar. Major suppliers were Thailand (57%) and Australia (26.5%). For the 1998/99 marketing year imports are forecast at 1.1 million tons based on tenders already announced (700,000 tons raw and 400,000 tons refined sugar). According to recent reports in the local press, Bulog officials are considering the cancellation of some of the sugar contracts which were concluded in the last two months. The elimination of the exchange subsidy afforded to Bulog for imports (Rp 7,000/$) has applied upward pressure on sugar prices and these possible cancellations of sugar contracts by Bulog is expected to affect prices even more.

FOREST PRODUCTS

The Indonesian forest products export industry has been hit hard by the slump in their traditional markets of Japan and Korea with total plywood exports forecast down by 15 percent to 7.1 cubic meters in 1998. The significant deregulation of the industry via the end of the forest product marketing organization, APKINDO, and the replacement of the log export ban with export taxes has not resulted in significant changes in the mix of exports. The use of a “Price Check” system instead of current world prices in the assessment of export duties has resulted in applied tariffs estimated at 200-300 percent above the real rates. Low world prices for logs are dampening these exports since producers are protecting their assets and delaying cutting.

SULAWESI: MARKET SITUATION FOR WHEAT FLOUR AND RICE

Sulawesi, lying directly south of the Philippines and one of the major islands in eastern Indonesia, was an important port of call in the legendary spice trade. Today, it is a key rice production area and home to the only flour mill outside the island of Java. Summarized below are observations made on the rice and flour situation in the port city of Ujung Pandang made by FAS staff in early October:

Wheat Flour

Although per capita consumption of bakery items are relatively high in Sulawesi compared to other areas in Indonesia, continued weakness in purchasing power has led to a drastic drop in demand for flour. On average, each vendor in the wet markets sells around 3 kg flour/day and usually maintains only one 25 kg bag as stocks. Retail prices during the first week of October were around Rp. 3,500 to Rp. 3,800/kg. Bakeries purchase directly from distributors for Rp. 75,000 per 25 kg. This represents a decline from prices in June of Rp. 89,000 per 25 kg.

The P.T. Berdikari Sari Utama Flour Mills is located in the port city of Ujung Pandang and supplies all of Sulawesi and much of eastern Indonesia. Unlike other areas in Indonesia, there has reportedly been no recent disruptions in the distribution of flour through traditional distributors. However, there is an abnormally high level of unsold stocks at the wholesale level, leading to quality concerns among the bakeries.

One bakery owner stated they had received an imported flour offering from Australia in September following the Indonesian government's announcement on import liberalization of wheat flour. However, after calculating all cost, the owner stated that the imported flour price was around Rp. 100,000 per 25 kg or significantly higher than the current mill gate price of Rp. 75,000. It is not clear what was included in the cost calculation, since Australia was reportedly offering flour at that time to Indonesian mills at approximately $205/mt (C&F). Based on September end-of-month exchange rate of Rp.10,600 this translates into Rp. 56,975 per 25 kg, or slightly more than half the bakery owner's calculated cost of Rp. 100,000 per 25 kg.

Rice

Sulawesi is a surplus rice area, and supplies much of eastern Indonesia and some areas in the provinces of Kalimantan to the west of Sulawesi on the island of Borneo. There appeared to be ample supplies of rice at various prices and quality. Prices range from Rp. 65,000 to Rp. 90,000 per 25 kg in the wet markets in Ujung Pandang. Supermarket prices started around Rp. 17,000 for 5 kg and around Rp. 31,000 for 10 kg. Some stalls in the wet markets sold imported rice from Thailand and Vietnam, reportedly sold by government employees from their monthly rice rations that are part of their benefit package. According to the store vendor, the employees sell the rice provided by the government in exchange for local rice. The imported rice available in Sulawesi is apparently of low quality and was being sold by the vendor for around Rp. 2,750 per kilogram.

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