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Soybean Imports in Transition -- The End of State Trading

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Report Highlights:
The upward trend in soybean imports to Indonesia is expected to flourish after the removal of Bulog as a sole importer. Financial and political stability are the crusial factors affecting trade financing and soybean imports.

Includes PSD changes: No
Includes Trade Matrix: No
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OVERVIEW

The value of U.S. exports of soybeans to Indonesia has increased 281 percent in just two years. From $66.4 million in CY 1995 to $253.3 million in CY 1997. Since the economic crisis in Indonesia began soybean consumption has been on the rise due to shifts by the consumers to the less expensive protein source products. Local production is not keeping up with the increased demand due to weather constraints and the high returns from other crops. The developments in the Indonesian soybean market without the state monopoly known by its Indonesian acronym Bulog are very crucial for the value and the share of U.S. soybean exports. Early indications show a plethora of imports due to huge margins between local and world prices (attracting a lot of speculators). The rate of imports is expected to slow down when prices equalize and at that time the few financially sound private traders that will consolidate their positions as the main distributors of soybeans. Soybean consumption in Indonesia is expected to continue on an increasing trend in part due to the economic and financial crisis and the drop in incomes prompting shifts in consumption patterns.

Indonesia's total consumption of soybeans has increased from 1.7 million metric tons (mmt) in 1988/89 to almost 2.3 mmt in 1997/98, up more than 35 percent. Food use at the same period increased from 1.4 mmt to 2.2 million, a 57 percent increase. Feed consumption accounted for 10-12 percent until 1995/96 (Table 1) when the only soybean crushing plant closed and food consumption became the only use of soybeans. Since then Indonesia's soybean meal demand has been satisfied exclusively by imports. Local soybean production provides an average of 65 percent of the total consumption while the rest is imported mostly from the United States. Imports of soybeans and other agricultural commodities were monopolized until the later part of 1998 by a state food logistics agency. The United States has been the exclusive supplier in the last few of years.

Soybeans are used to manufacture tofu and tempe (a fermented product made of whole soybeans, sold in chunks). Both products are usually eaten fried. Consumption is concentrated on the island of Java which reportedly accounts for about 90 percent of all food use. Java also accounts for almost 70 percent of Indonesian soybean production. Tempe and tofu have been a traditional and very important source of protein for a significant segment of the population.

After years of rapid growth and political stability, Indonesia slipped into a deep economic and financial crisis in the second half of 1997, followed by a political crisis in May of 1998. The economic crisis hit Indonesia at the same time that the country was experiencing its worst drought in 50 years. The results of the double calamity were devastating for the food and agricultural situation in Indonesia. Food prices soared, the exchange rate spiraled out of control and the rupiah depreciated from 2,599/$ in July of 1997 to 13,850 in July of 1998. The international community including International Monetary Fund (IMF) and The Word Bank, and individual countries responded with several loan packages as well as donations.

As usual, the loans provided by IMF are subject to certain conditionalities or reform packages.
Part of the reform packages that Indonesia has agreed to is the removal of Bulog as a state monopoly and distributor for all commodities except rice. So, with the exception of rice, the staple for food security according to the government, imports of the other agricultural commodities under Bulog's control namely sugar, wheat, garlic and soybeans have been deregulated, and duties have been eliminated. In response to the drought and economic crisis, duties on most other agricultural commodities were reduced to 5%. Imports of soybeans are not only free of import duties but can be imported by any private entity.

THE SOYBEAN IMPORT MARKET

The primary users of soybeans are the manufactures of tempe and tofu. These are very small enterprises, each one using an average of about 70 kg (154 lbs) of soybeans per month and they are located mostly in Java. Reportedly there are 160,000 manufacturers of which 85-90 percent are located in the island of Java. The majority of the140,000 manufactures are organized in 140 local geographical cooperatives known by their Indonesian acronym KOPTI (i.e. the KOPTI of South Jakarta) and then all local coops are part of the National Association of Tempe and Tofu Manufacturers known as INKOPTI.

When Bulog reigned as the sole importer of soybeans, a part of the imports was sold directly to the members of the KOPTIs at a fixed price (set by Bulog) and the rest was sold to local traders at a higher price. The soybean traders then were free to sell to anyone, members of KOPTIs or not. Under this scheme usually Bulog sold 60 percent of the total imports at fixed prices and the rest at “market” prices. Prior to the economic crisis the prices set by Bulog were generally somewhat above the import price adding support to local grower prices and covering some Bulog overhead.

A timely question is what is going to happen to soybean imports now that Bulog is out of the picture. Since Bulog still has imports coming in and stocks to last for several months it is too soon to have a clear picture. However, the recent increase in import activities for soybeans suggests a future of lively competition. In addition, the most important factor in answering this question is how soon the Indonesian banking system will return to a more normal role supporting trade financing.

For the last 10 years imports of soybeans on average have increased by 9.4 percent annually, while the food use of soybeans has increased on average for the same period by 4.5 percent. With a very good GDP growth rate before the crisis and with a population growth rate at almost 2 percent per year Indonesia’s imports for soybeans is destined to follow an upward trend, since local production is expected to remain flat the import share of total consumption is expected to also increase.

Even for CY 1998 imports of soybeans are expected to reach the 1997 volume level if not increasing slightly, despite the 16 percent forecasted contraction of the economy. The reason behind this is that although a certain segment of the population cannot afford to consume tempe and tofu due to high prices, an even larger sector of the population, the middle class, will increase tofu and tempe consumption as they are switching their source of protein from higher priced poultry to soybean products. Per capita income has dropped from a height of slightly above $1,100 in 1996 to a current level of less than half that (about $500 but fluctuates with the value of the rupiah).

THE OUTLOOK FOR SOYBEAN IMPORTS

The expansion of the area devoted to soybean production in Indonesia is constrained by the tropical climatological conditions, thus limiting the possibility of a supply response due to movements in world prices. The overall outlook for soybean imports for the next three to five years is very optimistic. Early indications are that imports during MY1997/98 hit a record level of over 800,000 tons. Demand for soybeans is expected to continue in an upward trend, especially food quality soybeans from the United States that are always preferred by the tempe manufacturers.

Storage capacity currently at the ports and points of distribution is plentiful and at very low prices. Most of the large KOPTIs in the vicinity of Jakarta can store 40-60,000 tons of soybeans in their own storage. Reportedly, five KOPTIs in the Jakarta area are in the process of forming a private company in order to combine their financial resources to import soybeans using the GSM program.

Currently there is hyperactivity in the import market for soybeans. Stocks with Bulog are estimated at around 180,000 tons. Bulog currently is selling soybeans at Rp. 2,600/kg which translates to around $370 per ton, which is significantly higher than the landed cost of imported soybeans. As a result many newcomers have been attracted by the profit margin and are trying to import soybeans. The Office of Agricultural Affairs in the American Embassy in Jakarta has experienced a dramatic increase in the daily phone calls requesting assistance with the importation of soybeans. Reports from local traders indicate that since mid-October contracts for the importation of at least 210,000 tons of soybeans have been signed. This hyperactivity in imports is expected to cease when local prices are driven down by competition and more closely reflect import costs. At that point, expected within the next six months, imports will return to a more regular schedule based on local demand. The infrastructure for imports of soybeans exists even without Bulog and imports will continue in a smooth way regulated by market forces as long as the financial environment returns to “normal.”

Currently, most of the banks require a 100 percent cash collateral deposited with the bank in order to issue an Letter of Credit (LC), while a few banks require between 70-80 percent cash deposit from their best clients. This is true even for importers that are using the facilities of the GSM-102 program.
The traders surveyed for this report indicated that the most serious problem right now is not the 100 percent cash collateral (they consider it the second most serious problem) but the extreme volatility of the exchange rate. Given the fact that soybeans imported from the United States take around six weeks to arrive at the port in Indonesia the uncertainty of the exchange rate make even the most financially sound traders reluctant to commit to large shipments.

Traders insist that a very unfavorable but stable exchange rate is better than the extreme volatility that was experienced in the summer and early fall of 1998. Over the past several weeks the exchange rate has been somewhat stabilize between 7-8,000 Rp/$. The average shipment size currently is 30,000 tons.
Even the large private traders of soybeans that do have the financial ability to import large shipment and enjoy the economies of scale of shipping costs prefer to limit shipments to 25-30,000 tons. This preference is due to fears of looting of the warehouses, riots and the overall political uncertainty. When political and financial stability returns to Indonesia, the soybean import market will not only be functioning very efficiently without the presence of Bulog but demand might also benefit since prices will be regulated only by supply and demand.

Table 1. Soybean Supply and Demand 1988/89 - 1997/98 (Oct/Sept) Marketing Years
Official USDA Data in 1,000 Metric Tons

MY Year	Production	MY Imports	Crush Dom. Consumption	Food Use Dom. Cons.	Feed, Seed, Waste, Dm. Cn.	Total Dm. Cn.
1988/89	1,285	369	240	1,410	120	1,770
1989/90	1,315	525	200	1,440	125	1,765
1990/91	1,400	524	225	1,575	130	1,930
1991/92	1,750	492	185	1,900	130	2,215
1992/93	1,700	527	250	1,920	130	2,300
1993/94	1,565	709	140	1,980	130	2,250
1994/95	1,680	619	100	2,070	130	2,300
1995/96	1,517	718	60	2,080	80	2,220
1996/97	1,460	684	0	2,092	90	2,182
1997/98	1,400	810	0	2,170	90	2,260

Table 2. Monthly Exchange Rate 1996 - 1998, Official Data

Year/ Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	2,305	2,342	2,346	2,346	2,345	2,345	2,360	2,355	2,340	2,337	2,358	2,385
1997	2,387	2,403	2,418	2,443	2,458	2,450	2,528	2,935	3,350	3,700	3,740	5,700
1998	10,250	8,800	8,660	7,970	11,250	14,750	13,850	11,050	10,850	7,550	7,300	7,516 *

Source: Data for Jan 1996 to July 1998 are from Central Statistics Agency (BPS). Data for Aug 1998 to Dec 1998 are from Bisnis Indonesia Daily.

Note: Data are on period ending basis.

*: Data for Dec 10, 1998.

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