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Report Highlights:

A prolonged dry season in 2019 is expected to reduce 2020/21 sugarcane production to 27 million tons. Lower yields and recovery rates are expected to produce 2.05 million tons of plantation white sugar. The COVID-19 crisis has pushed Indonesia's retail price for plantation white sugar to a record high of Rp. 18,550/kg (\$1,174/ton).

General Summary

The Government of Indonesia (GOI) tightly controls and regulates the sugar industry. GOI sugar policy classifies domestic sugar into three categories: white sugar for home consumption, raw sugar for domestic sugar refineries, and refined sugar for the local food and beverage industry. The GOI allows sugar refineries to import raw sugar to process into refined sugar for the food and beverage industry. Also, if refined sugar with certain specifications is unavailable in the local market, food and beverage companies can import. Whenever deemed necessary, the GOI allows sugar mills to import raw sugar to fill idle capacity.

A prolonged dry season has led to lower sugarcane production in 2019/20 of 29.1 million tons. Stunted growth from the long dry season is also expected to reduce production in 2020/21 to 27.0 million tons. 2020/21 plantation white sugar production is forecast to decline to 2.05 million tons due to the lower yields and recovery rate. In line with lower plantation white sugar production and higher household demands, 2020/21 raw sugar imports are forecast to increase to 4.5 million tons compared to 3.9 million tons in 2019/20. Nonetheless, ending stocks are forecast to further decline to 915,000 tons due to lower domestic production of plantation sugarcane and higher consumption in 2020/21.

Measures to prevent the spread of COVID-19, such as self-isolation and social distancing, will reduce demand for refined sugar by the food and beverage industry in 2019/20 to 135,000 tons of raw sugar equivalent. Refined sugar is forecast to slightly rebound to 150,000 tons of raw sugar equivalent in 2020/21, assuming a recovery from the pandemic is well-underway during the last half of 2020/21.

Despite lower demand from the food and beverage industry in 2019/20, sugar consumption is estimated to increase to 7.15 million tons of raw sugar equivalent compared to 7.055 million tons of raw sugar equivalent in 2018/19. In line with population growth and expected recovery of demand from the food and beverage industry, 2020/21 sugar consumption is forecast to reach to 7.2 million tons of raw sugar equivalent.

Despite GOI efforts to maintain maximum retail prices (*HET, Harga Eceran Tertinggi*) of plantation white sugar at Rp. 12,500/kg (\$791/ton), the average retail price of plantation white sugar has remained above HET maximum price since April 2019. In April 2020, demand surges related to COVID-19 pushed the average plantation white sugar retail price to a record high of Rp. 18,550/kg (\$1,174/ton). The current average retail price is an increase of 53 percent compared to April 2019.

Table 1. PSD: Sugarcane for Centrifugal

Sugar Cane for Centrifugal Market Begin Year Indonesia	2018/2019		2019/2020		2020/2021	
	May 2018		May 2019		May 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	425	425	410	415	0	420
Area Harvested	415	415	405	411	0	415
Production	29500	29500	29100	29100	0	27000
Total Supply	29500	29500	29100	29100	0	27000
Utilization for Sugar	29500	29500	29100	29100	0	27000
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	29500	29500	29100	29100	0	27000

(1000 HA) ,(1000 MT)

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

Table 2. PSD: Centrifugal Sugar

Sugar, Centrifugal Market Begin Year Indonesia	2018/2019		2019/2020		2020/2021	
	May 2018		May 2019		May 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1793	1793	2300	2300	0	1415
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2200	2200	2100	2230	0	2050
Total Sugar Production	2200	2200	2100	2230	0	2050
Raw Imports	5178	5178	4400	3900	0	4500
Refined Imp.(Raw Val)	184	184	100	135	0	150
Total Imports	5362	5362	4500	4035	0	4650
Total Supply	9355	9355	8900	8565	0	8115
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	7055	7055	6850	7150	0	7200
Other Disappearance	0	0	0	0	0	0
Total Use	7055	7055	6850	7150	0	7200
Ending Stocks	2300	2300	2050	1415	0	915
Total Distribution	9355	9355	8900	8565	0	8115

(1000 MT)

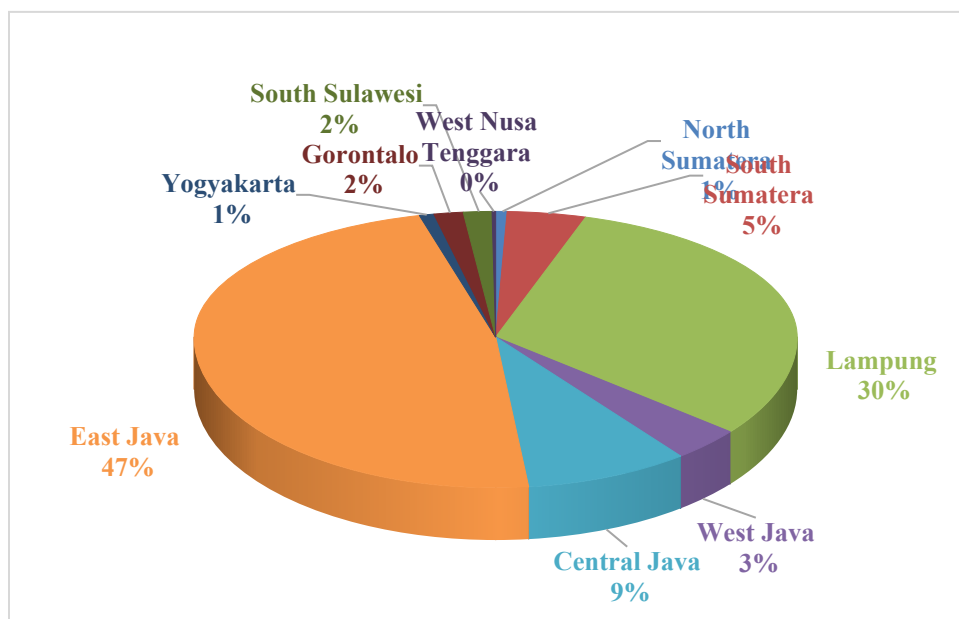
Note: the last column of each Marketing Year is not official USDA data.

Production

White sugar is mainly produced from sugarcane, and is primarily for direct human consumption. Refined sugar is made from imported raw sugar, which is generally used for processing by the food and beverage industry. Refined sugar produced from imported raw sugar is prohibited from being distributed to retail markets for human consumption.

Approximately 56 percent of sugarcane harvested area is located on Java. Rapid infrastructure development on Java as well as competition with other food crops which provide higher margins, such as corn and paddy, are the main cause of the island's declining area. Java has seen some new area expansion under land controlled by Perhutani (State-Owned land administered by the Ministry of Forestry and Environment), however these added areas have been more than offset by loss of land to development. Area expansion in southern Sumatera, which accounts for 35 percent of harvested area, has also slowed due to land conversation to non-agricultural use. As a result, harvested area in 2019/20 is estimated to decline to 411,000 hectares. Lower overall growth is expected to slow agricultural land conversion which, combined with continued sugarcane expansion on Perhutani lands, will increase harvested area to 415,000 hectares in 2020/21.

Chart 1. Provincial Contribution to National Sugarcane Production.



Source: 2020 Sugarcane Outlook, Ministry of Agriculture.

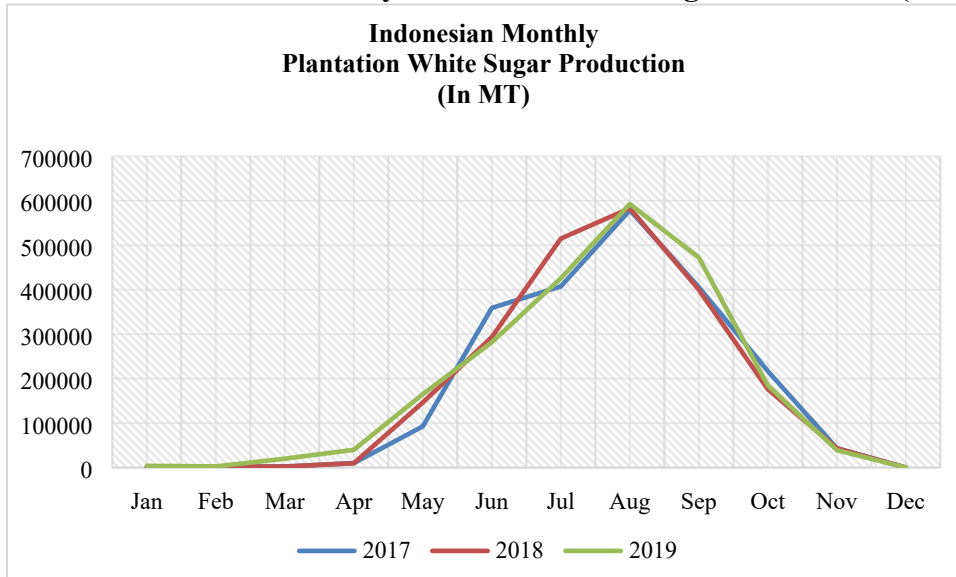
Consistent with the Indonesian Meteorology, Climatology, and Geophysics Agency (*BMKG, Badan Meteorologi, Klimatologi, dan Geofisika*) forecast for the onset of 2019/20 rainy season as published in August 2019, 75 percent of Indonesian area started the rainy season in late November 2019. The onset is later than the normal 30-year average onset of October of each year. Post field observations in Lampung Province in March, 2020 indicated the prolonged dry season in 2019 had stunted growth of sugarcane. Farmers there reported that the conditions may lead to a 10 percent decline in yield per hectare. Despite continued area expansion outside of Java, lower yields as a result of the prolonged dry season are expected to reduce 2020/21 sugarcane production to 27.0 million tons.



Short sugarcane segments from a prolonged dry season observed in Lampung, early March 2020.

Indonesia's 56 sugar mills are aging, with approximately 40 mills over 100 years old. Only six sugar mills operating in 2019 were less than 25 years old. As a result, the average 5-year recovery rate across the entire industry is only 7.56 percent. The Muslim fasting month of Ramadhan will commence in late April 2020. In an effort to avoid less efficient operations due to worker holiday travel, most mills are expected to begin milling season in June 2020. Stunted growth as well as decline in overall sugarcane quality due to some rodent pest problems reported by farmers in Java are forecast to reduce average recovery rate to 7.59 percent during the milling season of 2020/21 compared to 7.66 percent in 2019/20. Based on the abovementioned factors, plantation white sugar production in 2020/21 is forecast to decline by 8 percent to 2.05 million tons of raw sugar equivalent compared to 2.23 million tons of raw sugar equivalent produced in 2019/20.

Chart 2. Indonesia: Monthly Plantation White Sugar Production (MT)



Source: Industry.

There are 11 sugar refineries processing imported raw sugar into refined sugar, with a total installed capacity of 5.01 million tons. Running capacity of these refineries varies depending on the GOI's issuance of raw sugar import permits. Running capacity reached 79.75 percent in 2019/20, an increase compared to 77.23 percent in 2018/19. The COVID-19 pandemic, which has weakened the exchange rate by more than 20 percent and reduced consumption by the food and beverage industry, is forecast to negatively impact refinery running capacity. The food and beverage industry is forecast to require approximately 3.1 to 3.2 million tons of refined sugar in 2020/21, (3.317 to 3.424 million tons of raw sugar equivalent), a decline from 3.25 million tons in 2019/20 (3.478 million tons of raw sugar equivalent). Accordingly, 2020/21 refinery running capacity is forecast to decline to approximately 72 percent.

Consumption

Despite lower consumption by the food and beverage industry, sugar consumption in 2019/20 is estimated to increase to 7.15 million tons compared to 7.05 million tons in 2018/19. Sugar consumption for 2020/21 is expected to increase 7.2 million tons based on population growth and expected increase of demand from the food and beverage industry. Direct human consumption is estimated at 3.2 million tons of plantation white sugar (3.424 million tons of raw sugar equivalent), while the food and beverage industry uses the balance. Indonesian per capita sugar consumption in 2019/20 is estimated to reach 13.0 kg, an increase from 12.66 kg in 2018/19.

Prices

The Ministry of Trade (MOT) issued regulation 7/2020 regarding “Farmer Level Purchase and Consumer Level Selling Reference Prices” on February 5, 2020. The new regulation maintains the reference prices for sugar as previously stipulated in MOT regulation no. 96/2018. Reference prices are supposed to ensure availability and price stability for agricultural products for both producers and consumers, as per Presidential decree 71/2015 on essential commodities. The new MOT regulation covers commodities: corn, soybeans, sugar, shallots, broiler DOC (Day Old Chicks), layer DOC, cooking oil, poultry meat, eggs, and beef.

Table 3: Indonesian Reference Prices for Sugar per MOT 96/2018 vs MOT 7/2020

Commodity	Minimum Buying Price from Farmer (Rp./Kg)		Maximum Selling Price to Consumer (Rp./Kg)	
	2018	2020	2018	2020
Sugar	9,100	9,100	12,500	12,500

Lack of strong enforcement combined with shortages of plantation white sugar in the domestic market and surging demand have led to skyrocketing prices for sugar at the retail level, particularly since the beginning of 2020. Plantation white sugar retail prices remain well above the maximum retail price (*HET, Harga Eceran Tertinggi*).

Table 4. Indonesia: Jakarta Monthly Average Retail White Sugar Prices (Rp. /Kg)

Month	2017	2018	2019	2020
January	14,500	13,455	11,790	14,100
February	14,580	12,450	11,790	14,750
March	14,591	12,339	11,971	15,850
April	14,614	12,363	12,122	18,550
May	14,445	12,416	12,609	
June	14,409	12,350	12,753	
July	14,303	12,335	12,776	
August	14,159	12,301	12,746	
September	13,920	12,229	12,694	
October	13,750	12,266	12,722	
November	13,796	12,207	12,824	
December	13,693	11,897	12,945	
Average	14,230	12,384	12,479	15,925

Source: Market Information Center (PIP), Ministry of Trade and Jakarta Provincial Food Prices Info.

Stocks

Lower food and beverage industry consumption and imports are expected to decrease 2019/20 ending stocks to 1.415 million tons. Ending stocks are forecast to further decline to 915,000 tons in 2020/21 due to forecasted lower production of plantation white sugar and higher consumption.

Trade

The GOI expects the food and beverage industry to consume domestically produced refined sugar, although some of the industry with specific refined sugar requirements unavailable from domestic production may still import a limited amount of refined sugar to meet demand. GOI normally issues import allocations of raw sugar at the beginning of the year. These allocations are subject to change when certain sugar products cannot be sourced domestically.

In 2019, sugar refineries imported a total of 3.2 million tons of raw sugar from the total allocation of 3.3 million tons. This sugar must be refined and distributed to the domestic food and beverage industry. During the period of May to December 2019, a total of 2.150 million tons of raw sugar imports for refineries materialized. The COVID-19 crisis and GOI efforts to minimize the virus' spread by implementing social distancing measures has forced people to conduct daily activities from home. The measures are expected to reduce refined sugar consumption by the food and beverage industry due to less production of manufactured biscuits and snacks as well as retail bakery and restaurant closures. GOI has allocated a total of 3.0 million tons of raw sugar imports for refineries in 2020, a decline from 3.3 million tons allocated in 2019. As of February 20, 2020 the GOI had issued import permits for a total of 1.5 million tons of raw sugar imports to refineries to fulfill demand for the first semester of 2020. Approximately 1.3 million tons of the raw sugar for refineries is expected to arrive in country by end of April 2020.

Social distancing measures have increased demand for plantation white sugar for household's direct consumption as people have been forced to stay home. Low stocks of plantation white sugar since the last months of 2019 and panic buying due to the social distancing measures have resulted in significant retail price increases. In an effort to stabilize prices of plantation white sugar, as of March 2020, GOI has issued permits to import a total of 472,630 tons of raw sugar to be processed into plantation white sugar for direct household consumption. Approximately 470,000 tons of the allocation is expected to land in country by April 2020. In the face of the upcoming fasting month of Ramadhan and Eid'1 Fitr, when demand normally surges putting pressure on prices, GOI plans to issue additional import permits for 550,000 tons of raw sugar to produce plantation white sugar. The additional sugar is expected to arrive before the beginning of the 2020/21 milling season in June 2020 to prevent white sugar prices from falling due to the influx of domestic production entering the market.

Accordingly, raw sugar imports for 2019/20 are estimated to reach 3.9 million tons. Considering the additional imports of raw sugar for plantation white sugar production and the allocation of raw sugar for

refineries in both the last semester of 2020 and first semester 2021, 2020/21 raw sugar imports are forecast to reach a total of 4.5 million tons.

The GOI sets sugar import duties as follows:

Table 5. Indonesia: Sugar Import Duty (ID) and Value Added Tax (VAT), 2017

No.	Commodity	ID		VAT (%)
		(Rp./Kg)	(US\$/ton)	
1.	Raw cane sugar	550	40	10
2.	White sugar	790	57	10
3.	Refined sugar	790	57	10

Source: Indonesian Customs Tariff Book 2017.

For the period May 2019 to January 2020, Indonesia's primary raw sugar suppliers were Thailand (82 percent) and Australia (17 percent). Refined sugar was supplied by Thailand (89 percent), South Korea (7 percent), and India (3 percent).

Policy

Thailand has dominated Indonesian imports of the raw sugar due to freight advantage, and Thailand's ability to meet Indonesia's specification requirements for a minimum ICUMSA (*International Commission for Uniform Methods of Sugar Analysis*) of 1200 IU (*International United*) for raw sugar and maximum 45 IU for refined sugar. In order to ease imports of sugar to help stabilize domestic prices, on February 17, 2020, the Ministry of Trade issued regulation number 14/2020, providing more flexibility on sugar specifications. The regulation defines allowed and banned sugar for imports based on the following:

Table 6. MOT Regulation on Sugar Imports

No.	HS Code	Description	Allowed for Imports	Banned for Imports
A	Raw Sugar			
	17.01	Cane or beet sugar, pure chemically sucrose, solid form		
		-do not contain additional color or flavor		
1.	1701.12.00	-- beet sugar	With ICUMSA ≥600 IU	With ICUMSA ≤600 IU
2.	1701.13.00	-- cane sugar		
3.	1701.14.00	-- other cane sugar		
B.	Refined Sugar			
	17.01	Cane or beet sugar, pure chemically sucrose, solid form		
		-Other		
	1701.99	--other:		
4.	1701.99.10	---purified sugar	With ICUMSA ≤75 IU	With ICUMSA > 75 IU
C.	White Sugar			
	17.01	Cane or beet sugar, pure chemically sucrose, solid form		
		-others:		
5.	1701.91.00	--containing additional color or flavor	With ICUMSA 81 – 200 IU	With ICUMSA <81 or >200
	1701.99	--others:		
	1701.99.90	---others	With ICUMSA 81 – 200 IU	With ICUMSA <81 or >200

Source: MOT 14/2020.

The imported raw sugar must only be used as a raw material for refineries and to produce white sugar for consumption, while refined sugar will only be imported as a raw material for food and beverages industry. Only importers who hold general importer-producer identification numbers (*API-P, Angka Pengenal Importir-Produser*) can import raw or refined sugar. Prior to import, the API-P importer must obtain an import recommendation from Ministry of Industry as a requirement to obtain an import permit from Ministry of Trade. Import permits for the import of raw sugar and refined sugar are valid for a maximum period of six months from the issuance date.

White sugar can only be imported to strengthen national stock as well as to stabilize prices. Only state-owned companies and API-P importers can import white sugar upon authorization from the government. In addition to receiving an import recommendation from Ministry of Industry, white sugar importers must receive an import recommendation from the Ministry of State-Owned Companies and Ministry of Agriculture to obtain an import permit from the Ministry of Trade. Import permits for the import of white sugar will be valid for a maximum period of one year from the issuance date.

TRADE MATRICES

Table 7. Import Trade Matrix, Raw Sugar 2019 - 2020

Time Period	May-Apr	Units:	1,000 MT
Exports for:	2018/19		2019/2020*
U.S.	0		0
Others		Others	
Thailand	4242	Thailand	2178
Australia	925	Australia	462
Total for Others	5167		2640
Others not Listed	0		0
Grand Total	5167		2640

Note: * Only for the period of May 2019 – January 2020

Source: Trade Data Monitor

Table 8. Import Trade Matrix, Refined Sugar 2019 - 2020

Time Period	May-Apr	Units:	1,000 MT
Exports for:	2018/19		2019/2020*
U.S.	0		0
Others		Others	
Thailand	117	Thailand	90
South Korea	7	South Korea	7
		India	3
Total for Others	124		100
Others not Listed	1		2
Grand Total	125		102

Note: * Only for the period of May 2019 – January 2020

Source: Trade Data Monitor.

Note: Exchange rate is Rp. 15,802/US\$ 1, as of April 12, 2020.

Attachments:

No Attachments