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Indonesia

Sugar

Sugar Semi-Annual Report

1999

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Report Highlights:
A doubling of sugar imports to 1.8 mmt has lowered sugar prices by 40 percent to a retail level of about $0.28/kg. With high stocks, increased domestic availability and a 5-month limitation on trade, MY2000 imports are forecast to decline to 1.4 mmt. To protect the local sugar industry, the Government of Indonesia backtracked on the 1998 trade liberalizing measures and temporarily limited the importation of sugar to sugarmills in Java (effective Aug-Dec, 1999). However, recently, the GOI allowed several food industries to import sugar directly. Due to higher net returns from other crops, cane production continues to decline. In MY1999 refined sugar production reached 1.5 mmt with MY2000 forecast up to 1.6 mmt due to improvement in cane quality and milling efficiency. MY1999 consumption is estimated to increase to 2.8 mmt due to lower prices. Assuming continued economic improvement MY2000 consumption is forecast at 3.1 mmt, only slightly below MY1998 record of 3.15 mmt.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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General Summary

The liberalization of sugar trade in September 1998 allowed private traders to import sugar at zero duty and market it domestically. The lifting of import restrictions combined with high domestic prices attracted a doubling of sugar imports and brought down local sugar prices significantly. Retail prices have slid by 40 percent in the past year to a current price of about US$ 0.28/kilogram. To protect local sugar growers and refiners, there was pressure for the Government of Indonesia (GOI) to impose an import duty on sugar. Instead the GOI imposed a ban on imports by general importers. From August-December 1999 only processors can import sugar. With an aim of encouraging farmers to plant cane, the GOI subsidizes the farmers by mandating that processors buy local sugar at Rp. 2,500/kilogram.

The preliminary figure for cane production for MY1999 (May 98-April 99) is revised to 27.2 mmt, down 2.8 percent from MY1998 level of 28.0 mmt. Due to high input prices and less competitiveness compared to other crops, the forecast for MY2000 production is lowered to 26.0 mmt. Cane yields in MY2000 are also expected to decrease from 72.5 mt/ha in MY1999 to 72.2 mt/ha.

High input prices, difficulties in financing and uncertainties in the sugarmills due to change in policies lowered cane quality in MY1999. The cane recovery rate for MY1999 is expected to remain at 5.5 percent and it is forecast to increase slightly to 6.1 percent in MY2000 on the expectation that farmers will improve cultivation techniques somewhat. The decline in area harvested combined with problems in agricultural inputs (including credit) resulted in the decline of the estimated sugar production from 2.2 mmt in MY1998 to 1.5 mmt in MY1999. Improved cane quality coupled with more efficient cane crushing is expected to increase sugar production to 1.6 mmt in MY2000.

Although the economic crisis continues, lower sugar prices due to abundant supply from imports increased MY1999 sugar consumption to 2.8 mmt, 7.7 percent higher than previously estimated at 2.6 mmt. This is still a marked decline from MY1998's peak of 3.15 mmt. Assuming more stable economic and political conditions after the presidential selection in October/November 1999, Post increases MY2000 sugar consumption by another 7.0 percent to 3.1 mmt.

Under the trade liberalization policy sugar imports for MY1999 increased dramatically to 1.8 mmt, consisting of 1,401,000 tons raw and 387,000 tons refined sugar or double the MY1998 level. For MY2000, imports are forecast down to 1.4 mmt on the presumption that domestic production will increase somewhat and that the August-December restriction on imports will have some effect. Major suppliers remain Thailand, Australia, China and Brazil.

Despite the increase in consumption, large imports resulted in high level of ending stocks (at mills and traders), i.e., for MY1999 (992,000 mt) and MY2000 (892,000 mt). With the liberalization of sugar trade and distribution, it is expected that the supply/demand situation will be more market driven. After the liberalization which occurred in September 1998 Bulog is no longer managing sugar imports and distribution. Bulog had difficulty selling their stocks which quickly became uncompetitive due to currency fluctuations and private sector competition.

Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Area Planted	400	400	400	400	390	390
Area Harvested	386	386	375	375	375	360
Production	27100	27954	27000	27180	27300	26000
TOTAL SUPPLY	27954	27954	27000	27180	27300	26000
Utilization for Sugar	27954	27954	27000	27180	27300	26000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	27954	27954	27000	27180	27300	26000

Centrifugal Sugar

PSD Table						
Country:	Indonesia					
Commodity:	Sugar					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Beginning Stocks	559	559	520	520	920	992
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2190	2190	1500	1490	1900	1600
TOTAL Sugar Production	2190	2190	1500	1490	1900	1600
Raw Imports	718	718	700	1401	200	1000
Refined Imp.(Raw Val)	203	203	800	387	300	400
TOTAL Imports	921	921	1500	1788	500	1400
TOTAL SUPPLY	3670	3670	3520	3798	3320	3992
Raw Exports	0	0	0	6	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	0	0	0	6	0	0
Human Dom. Consumption	3150	3150	2600	2800	2900	3100
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	3150	3150	2600	2800	2900	3100
Ending Stocks	520	520	920	992	420	892
TOTAL DISTRIBUTION	3670	3670	3520	3798	3320	3992

Production

Sugar production in MY1999 only reached 1.5 mmt and is expected to increase to 1.6 mmt (around 6.7 percent) in MY2000 due to improving cane quality (higher sugar content) and better crushing practices (higher recovery rate) due to better management forced by the price squeeze (high prices to farmers, dclining prices to consumers). Also, there is some weeding out of lower quality refiners. The policy goal of shifting sugar production to the islands off of Java continues. However, due to the economic crisis the progress is slow.

Due to the high cost of prodution, cane has become less attractive compared to other crops. The interest rate of special credit for cane farmers (KKPA TR-Kredit Kepada Para Anggota Tebu Rakyat) is 16%, higher than 10.5% the interest rate for food crops farmers or KUT (Kredit Usaha Tani). The floor price for rice is Rp. 1,500/kg, compared to the floor price for sugar which is set at Rp. 2,500/kg. Ideally, given productivity and cost considerations, the usual ratio should be 2.4 * Rp. 1,500 = Rp. 3,600/kg. The harvested area in MY2000 is lowered to 360,000 hectares, around 4 percent below the previous estimate and also lower compared to the harvested area in MY1999 due to competition with other crops which can generate higher return.

The cane sugar production estimate for MY1999 is revised downward from 2.2 mmt in MY1998 to 1.5 mmt due to less cane milled and lower cane quality. Assuming that the political and economic situation becomes stable or better toward the end of 1999 or early 2000, Post forecasts that farmers will be more enthusiastic about managing their cane, producing higher cane quality in MY2000. Cane yield is expected to be lower to emphase raising sugar content (72.2 mt/ha compared to 72.5 mt/ha in MY1999). With all efforts for improving cane quality (proper input application, timely harvest and crushing) and more efficient milling, sugar rendemen is forecast to increase from 5.5 percent in 1999 to 6.1 percent in MY2000. Sugar yield is estimated to reach 4.4 mt/hectare in MY2000 compared to 4.0 mt/hectare in MY1999.

Consumption

The large volume of imported sugar which is cheaper than locally produced sugar pushed down sugar prices. With the lower sugar prices, Post increased the estimate of total domestic consumption from 2.6 mmt to 2.8 mmt, over 7 percent higher than previously estimated. Currently, the performance of food industries is starting to improve which leads Post to increase the forecast of the total consumption for MY2000 from 2.9 mmt to 3.1 mmt. The GOI allows fifteen food producers to import sugar directly. The economic crisis forced reduced sugar consumption so that the MY1998 level of 3.15 mmt represents the peak.

Prices

To protect farmers from lower sugar prices and encourage them to plant cane, the GOI set a floor price at Rp. 2,500 /kg (sugarmills price to the farmers). However, with the abundant volume of imports, sugar prices at the consumer level are declining. Sugar prices at tender (leaving sugar mills) only reach Rp. 1,450/kg to Rp. 1,660/kg. Current wholesale prices ranges from Rp. 2,000 to Rp. 2,100/kg. Since April 1999 retail sugar prices have declined from Rp. 2,900/kg to Rp. 2,390/kg in August 1999. In August 1998 the retail price was Rp. 3,848/kg, or a 40 percent drop in a year's time. The imported sugar is reportedly sold at around Rp. 1,900/kg to Rp. 2,160/kg or US$ 0.22 to US$ 0.25 per kilogram at current exchange rates.

Stocks

The National Logistics Agency, or Bulog, officials report that their stocks of sugar were completely sold by the end of August 1999. With Bulog out of sugar business, stocks of sugar are now managed by sugarmills and traders/importers. Although consumption is estimated to increase and production down, the estimates of the year-ending stock levels of MY1999 and MY2000 are revised upward to 992,000 mt and 892,000 mt respectively due to large imports. Normal stocks (during Bulog management) usually covered two month distribution which is around 500,000 mt.

Policy

To speed up the relocation of sugar industry from Java to islands away from Java and to attract interest in investment in sugar industry, the GOI plans to give facilities in taxation (tax holiday) and special credits for new sugar industries. According to the plans, cane farmers who are willing to work at sugarmills off Java will also eligible for transmigration and will be given some land to work on. It remains to be seen if this program will be a priority for the next Indonesian government due to be selected in October/November 1999.

Trade

Indonesia imports mostly raw sugar. According to official trade data, total sugar imports in MY1999 (May98-April99) reached 1.8 mmt. Around 1.4 mmt of the total imported sugar was raw sugar. Only six thousand tons of sugar have been exported (to Korea) during MY1999 and no exports are predicted to take place in MY2000. Thailand was the main supplier during CY1998, shipping around 477,000 mt of sugar, mostly raw sugar. The second largest supplier was Australia with around 104,000 mt of raw sugar. FAS/Jakarta forecasts sugar import volume for MY2000 at 1.4 mmt, higher than previous forecast (500,000 mt) due to reduced production and favorable international prices.

Following the September 1998 sugar import liberalization which allowed general importers to import sugar, a large volume of imported sugar has flooded the market and pushed down local sugar prices. To protect local sugar industries and farmers, several organizations have proposed to the GOI to impose an import duty on imported sugar (around 60 to 65 percent). Although it is permitted under the World Trade Organization (WTO) regulation, the GOI remains committed to its trade liberalization policy with the International Monetary Fund (IMF) and do not want to impose an import duty on imported sugar. In August 1999 the GOI did limit importers to only producers on Java. This change will only be in effect until December 31, 1999. So far the trade indicates imports have slowed somewhat but continue relatively strongly.

Export Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	Jan-Dec		
Exports for	1998		1999*
U.S.	0	U.S.	0
Others		Others	
Rep. of Korea	6		
Total for Others	6		0
Others not listed	0		0
Grand Total	6		0
*: Data for Jan-May99 only.			

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	January-December		January-May
Imports for	1998		1999*
U.S.	14	U.S.	0
Others		Others	
Thailand	477	Thailand	456
Australia	103	Brazil	273
China	82	Pakistan	200
Brazil	71	Saudi Arabia/UEA	59
Malaysia	31	Australia	31
Singapore	30	Malaysia	20
Korea	28	Belgium/Luxemburg	19
Germany	20	Singapore	16
Saudi Arabia/UEA	19	China	15
United Kingdom	16	Germany	8
Total for Others	877		1097
Others not listed	176		87
Grand Total	1067		1184
* : Data for Jan-May 1999 only.			

Tables

Cane Sugar Production by Province

Composition of Cane Sugar Produciton by Province
Area, Production and Share 1/
Estimate by Government of Indonesia for 1999

Island and Province	Area Harvested (1,000 Ha)	Production (1,000 Ton)
North Sumatra	16	93
South Sumatra	0	0
Lampung	105	635
Sumatra	121	728
West Java	30	165
Central Java *	67	337
East Java	170	1,082
Java	267	1,584
South Kalimantan	11	32
Kalimantan	11	32
South Sulawesi	16	72
North Sulawesi	8	38
Sulawesi	24	110
INDONESIA	423	2,454

Source: Statistical Estate Crops of Indonesia, Directorate General of Forestry and Plantation, 1999.
Note: * : Including the Special Territory of Yogyakarta.

Cane Sugar Production by Month

Preliminary 1998 and 1999 Cane Sugar Production by Month
(in 1,000 Metric Ton)

Month	Production	Month	Production
1998		1998	
Jan	0.5	Jan	1.2
Feb	11	Feb	10.1
Mar	15	Mar	
Apr	14	Apr	
May	17	May	
Jun	506	Jun	
Jul	379	Jul	
Aug	512	Aug	
Sep	187	Sep	
Oct	186	Oct	
Nov	88	Nov	
Dec	12	Dec	
Total	1,927	Total	11.3

Source: Economic Indicator, Central Bureau of Statistics, Indonesia (June, 1999).

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	10250	8800	8660	7970	11250	14750	13000	11200	10750	7550	7300	8068
1999	8950	8730	8685	8260	8046	7590	7018	7857	8560			

Source: Business Indonesia Daily and CBS.
Note: September 1999 exchange rate is only for September 28, 1999.

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