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Grain and Feed

Wheat Update

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Report Highlights:

The combined effects of the lifting of the price subsidy on flour, uncertainty surrounding the end of government involvement in wheat and flour trade and production, major influx of European flour, slashed consumer buying power and overall inflation resulted in a reduction in wheat imports from 4.0 mmt during MY98 to 2.6 mmt in MY99. Flour imports totaled almost 117,826 mt in MY99 (about 159,000 mt wheat equivalent) – almost twelve times the MY98 total. The onslaught of imported flour has prompted threats of an anti-dumping case. More political certainty and improved economic conditions should result in a growth in imports to 3.2 mmt during MY00. U.S. market share is growing due to commercial sales and assistance programs.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Unscheduled Report

Jakarta [ID1], ID0004

Executive Summary

The combined effects of the lifting of the price subsidy on flour, uncertainty surrounding the end of government involvement in wheat and flour trade and production, the major influx of European flour imports, slashed consumer buying power and overall inflation resulted in a reduction in wheat imports from 4.0 mmt during MY98 (July 97-June 98) to 2.6 mmt in MY99. Flour imports totaled almost 117,826 mt in MY99 (about 159,000 mt wheat equivalent) -- almost twelve times the MY98 total. More political certainty and improved economic conditions should result in a growth in imports to 3.2 mmt during MY00. Australia and Canada remain the main suppliers of wheat to Indonesia accounting for around 50 percent and 30 percent of total wheat imports, although U.S. market share is growing due to commercial sales and assistance programs.

The onslaught of low cost, low quality flour imports from several countries (EU 40%) has prompted threats of an anti-dumping case. Two milling companies have also reacted by starting production of a lower priced, lower quality flour.

Wheat

PSD Table						
Country:	Indonesia					
Commodity:	Wheat					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Harvested	0	0	0	0	0	0
Beginning Stocks	238	238	1007	1416	661	1558
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3619	4028	2800	2642	3200	3200
Jul-Jun Imports	3619	4028	2800	2642	3200	3200
Jul-Jun Import U.S.	0	59	500	239	800	800
TOTAL SUPPLY	3857	4266	3807	4058	3861	4758
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	120	120	130	130	140	140
TOTAL Dom. Consumption	2850	2850	2500	2500	2400	2600
Ending Stocks	1007	1416	1307	1558	1461	2158
TOTAL DISTRIBUTION	3857	4266	3807	4058	3861	4758

Note: All data is on July/June marketing years.

Wheat Imports

While MY98 imports are revised up nearly 400,000 mt to 4.0 mmt, the MY99 import number is downgraded to 2.6 mmt (34% lower than in MY98) due to slackening demand and high wheat flour imports. Imports during CY99 (January-August, the most recently available data) had reached 1.96 mmt, 12.5 % lower than the same period last year (2.24 mmt). As economic conditions continue to improve imports should recover moderately to 3.2 mmt for MY00, unchanged from the previous forecast. Wheat imports for July and August 1999 (the first two-months of MY00) were 0.8 mmt compared to 0.3 mmt during July-August 1998. U.S. wheat share has expanded markedly in the last two years. During MY98 it was only slightly over one percent compared to Australia 58% and Canada 32%. But with the trade liberalization policy and U.S. food assistance, the U.S. share increased to 9 percent in MY99 and is forecast to reach a remarkable 25 percent in MY00.

Under the liberalized trade policy in Indonesia which took effect in September 1998, imports of wheat and the distribution of wheat flour are no longer managed by Bulog, the National Logistics Agency. All of the mills, i.e., PT. Bogasari (located in Jakarta and Surabaya, East Java), PT. Berdikari (Makasar, South Sulawesi), PT. Panganmas Inti Persada (Cilacap, Central Java), and PT. Sriboga (Semarang, Central Java) are free to purchase their wheat and sell the flour at their own prices. The major user of wheat flour is the giant instant noodle industry (which consumes around 60% of total flour production). Sales of flour are dominated by all-purpose flour, i.e., medium protein content.

Flour Imports

Since tariffs were lifted, wheat flour imports have taken off. According to official Government Of Indonesia (GOI) trade data, wheat flour (including meslin flour) imports (HSC: 1101.00.000) in MY98 (July97/June98) reached a modest 10,029 mt valued at US\$ 2.4 million (an average of US\$ 181/mt). Main suppliers were Japan (76%) and Singapore (23%). The scene changed dramatically in MY99 as imports surged to 117,826 mt (US\$ 22.7 million, CIF or US\$ 193/mt) and were dominated by the European Union with around 37 percent market share followed by Asia with 23 percent, Australia with 18 percent, and the United Arab Emirates with 17 percent. Currently, flour imports average around 20,000 mt per month.

Industry sources indicate that the quality and prices of imported flour are below that of local flour. Prices are at least Rp. 100/kg (about \$14/mt at the current exchange rate) cheaper at the retail level. As a result, the local milling industry has claimed that imported flour is being dumped onto their market. Reportedly, an antidumping case was filed within the Indonesian system (KADI) in late November. However, the Indonesian Anti Dumping Committee (KADI-Komite Anti Dumping Indonesia) could not confirm that report. Should KADI (a committee under the Ministry of Industry and Trade) receive such a claim, they will conduct a study to ascertain the case. If it is confirmed, KADI will report the case to the Ministry of Finance (MOF). A claim to the World Trade Organization (WTO) may then be submitted by the MOF.

To compete with this lower-priced imported wheat flour at least two milling companies have begun to produce low quality flour, i.e., Lencana brand (Bogasari) and Soka brand (Panganmas). The new lower quality and cost flour is about 10 percent protein - the same as the regular medium protein flour (Segitiga Biru, Melati, Beruang Biru, and Kompas brands) but has higher ash content and/or lower in other quality factors. According to an industry source, the

wholesale price of regular medium protein flours is around Rp. 49,500/25 kg-bag (\$287/mt at current exchange rate) compared to Lencana which is sold around Rp. 46,742/25 kg-bag (\$271/mt at current exchange rate) or Rp. 43,000/25 kg-bag for Soka (\$249/mt at current exchange rate). A wide range of imported flours are available to supply the snack food/cookies industry at distributor prices of around Rp. 44,000 to Rp. 45,000/25 kg-bag (\$255 to \$261/mt at current exchange rate). Imported flour is mainly sold directly by the importer to food industries who are willing to make a down payment.

The milling industry is competing in other ways, too. In late December 1999, PT. Bogasari began producing three new brands of flour geared toward market niches, high quality flour for the modern upscale bakeries which require consistency of flour quality (Cakra Kembar Emas brand sold at Rp. 67,710 factory price or \$415/25 kg-bag); Segitiga Merah for more economic cakes and pastries (Rp. 52,300/25 kg-bag or \$303/mt); and Lencana brand (Rp. 46,742/25 kg-bag or \$271/mt) for cookies. Imported (specialty) flour from the United States (cracked wheat, etc.) is imported for niche markets and sold at Rp. 85,000/50 lb. or 22.7 kilogram (\$543/mt at current exchange rate).

Trade Financing

Prior to deregulation, the Indonesian flour mills acted as toll millers for the Government of Indonesia and therefore were not faced with obtaining trade financing. Trade financing continues to be difficult in Indonesia and it is no exception for the flour mills. Industry sources indicate that banks require 100 percent down payment for letters of credit. However, mills have reportedly worked out several mechanisms with their suppliers including bonding silos, the use of the warehouse receipt system, credit terms from suppliers, discounts for volume purchases, and the use of the GOI's credit insurance company, ASKRINDO, to cover up to 80 percent of the transaction or L/C. Several USDA programs such as PL-480, Section 416 (b) and the GSM credit guarantee programs are also being utilized.

Trade

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	Wheat		
Time period:	July-June		
Imports for	1998		1999
U.S.	59	U.S.	239
Others		Others	
Australia	2346	Australia	1443
Canada	1280	Canada	786
Argentina	262	Japan	135
Total for Others	3888		2364
Others not listed	81		39
Grand Total	4028		2642

Import Trade Matrix			
Country:			
Commodity:	Wheat Flour		
Time period:	July-June		
Units	MT		
Imports for	1998		1999
U.S.	0	U.S.	87
Others		Others	
Japan	7584	Germany FR	23840
Singapore	2352	Australia	21896
Malaysia	58	United Arab Emirate	20066
Australia	17	Belgium	14473
United Kingdom	16	Singapore	11995
Korea Rep. of	2	Japan	7528
		Malaysia	4266
		France	3623
		New Zealand	3142
Total for Others	10029		110829
Others not listed	0		6910
Grand Total	10029		117826

Consumption

Since Indonesia produces no wheat, all demand is met through imports. Noodles are the primary wheat-based food and although a staple of the Indonesian diet demand was affected by the economic crisis. Wheat consumption fell substantially from the previous estimate of 3.5 mmt to 2.9 mmt in MY98 and continued to hover around that level in MY99 at 2.5 mmt. The total installed milling capacity of the existing mills remains at around 6.5 mmt per annum but flour mills ran at around 40 percent capacity in MY99 and no expansion occurred. Given that the recovery rate for wheat flour is around 74 percent, flour production during MY99 (July/June) is estimated at 1.85 mmt down around 12 percent from 2.11 million tons in MY98. FAS/Jakarta's consumption and flour production forecasts for MY00 are up based on continuing economic recovery spurring higher consumption and reflecting the increasingly dynamic milling industry. The consumption forecast is up by 200,000 mt to 2.6 mmt and flour production is forecast to rebound to about 1.92 mmt.

Policy

Sparked by a donation by UNICEF and in an effort to improve health conditions the GOI now requires that all wheat flour produced in Indonesia be iron fortified. Currently only iron fortification is required but a regulation requiring more complete fortification is expected to be official in the next few months. Also, Sriboga Flour Mill was recently recognized by UNICEF as being the first mill in the world to fortify with zinc.

A 30% tariff on rice became effective on January 1, 2000. Analysts say this is about 4% more protection than offered by the current ban on rice imports lower than 5 percent broken. As such it is not expected to have a major effect on rice prices or consumption and therefore little effect on the consumption of wheat-based products.

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	10250	8800	8660	7970	11250	14750	13000	11200	10750	7550	7300	8068
1999	8950	8730	8685	8260	8046	7590	7018	7857	8386	6900	7245	7100
Source: Business Indonesia Daily and CBS.												
Note: December 1999 exchange rate is for December 30, 1999.												

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