

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Indonesia

Coffee Annual

2014

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Report Highlights:

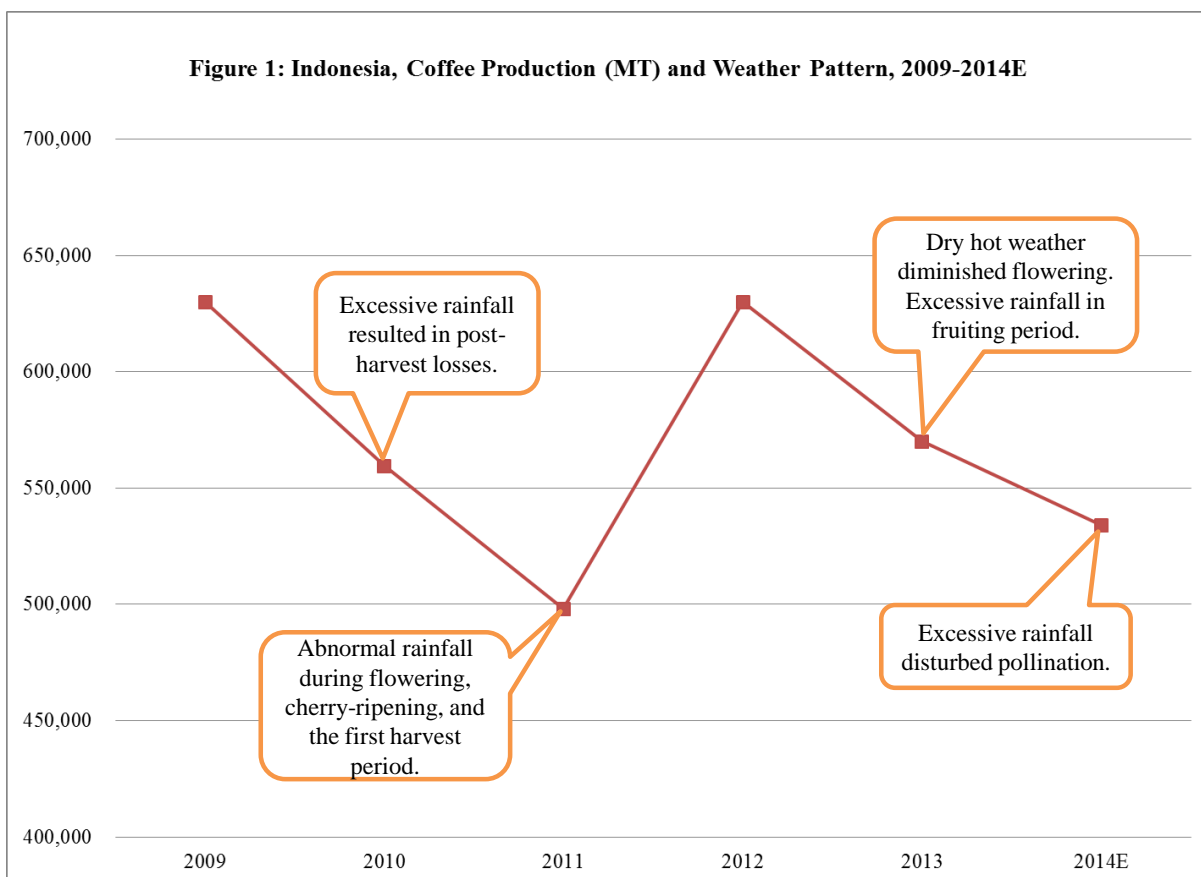
Indonesia's coffee production declined 9.5 percent in marketing year (MY) 2013/14 and 6 percent in MY 2014/15 due to excessive precipitation during flowering in the 2013 dry season. Lower production, combined with strong domestic consumption, will reduce exportable coffee supplies by 600,000 bags GBE and raise coffee imports by 55,000 bags in MY 2014/2015. Growing coffee prices are driving down stocks, with MY 2014/15 ending stocks declining to 33,000 bags from 48,000 bags in MY 2013/2014.

Commodities:

Green, Coffee

Production:

Indonesia's coffee production declined 9.5 percent in marketing year (MY) 2013/14 to 9.5 million 60kg bags green bean equivalent (GBE). Production is expected to decline to 8.9 million bags GBE in MY 2014/15 (6 percent) due to excessive precipitation during the 2013 dry season. (Flowering occurs between May and September, while harvest follows 12 months later). Excessive rain during Indonesia's 2013 dry season resulted in sub-optimal pollination, which normally takes place early in the dry season (April-September). Robusta coffee, which requires wind and insect pollination, is expected to face declines up to 500,000 bags GBE (7.35 million bags GBE). Arabica coffee is self-pollinating, and losses of 100,000 bags GBE (1.55 million bags GBE) are expected.



Source: USDA and FAS Jakarta Coffee Reports

Indonesian coffee harvested area is stagnant at approximately 1.2 million hectares, suggesting that yield fluctuations are attributable to unstable coffee production (see figure 1). Yields are sensitive to excessive rains and drought, which can disturb pollination, flowering, cherry-ripening, harvest and post-harvest. Weather-related yield losses are accentuated by poor agricultural practices and a high percentage of old crop plantings. (Approximately 26 percent of total planted area is old crop).

Agroforestry and opportunities for Arabica coffee area expansion

Farmers are increasingly planting corn and horticultural crops in protected forest areas as industrial and residential pressures on agricultural land increase. These agronomic practices are provoking soil erosion and deforestation. Indonesia's state-owned forestry company (PERHUTANI) is responsible for managing and conserving commercial and protected forest areas on Java and Madura. PERHUTANI is introducing agroforestry practices to Indonesia, which may help expand coffee planted area nationally. They report that agroforestry can be a win-win solution, balancing farmer's economic interests and forest conservation objectives. Coffee is considered an ideal agroforestry crop because:

- Coffee is a perennial crop with strong root systems that help prevent erosion,
- Coffee crops can stand for 30 years, reducing harmful short-term crop rotations.
- Forest crops can function as shading/canopy for coffee.
- Coffee can provide farmers with a regular income stream.

PERHUTANI manages nearly 684,000 hectares of protected forest area, including 291,306 hectares in West Java that are ideal for coffee inter-cropping. Currently only 20,000 hectares of this land is planted to coffee, suggesting that there is ample land availability for Arabica coffee area expansion in West Java. Post notes, however, that PERHUTANI will only provide land. Additional inputs, including the collaborative support of local governments and the financial sector, as well as high quality coffee seed, fertilizer, and extension services are also required.

Consumption:

Indonesian domestic coffee consumption is expected to grow from 2.68 million bags GBE in MY 2013/2014 to 2.7 million bags GBE in MY 2014/2015. Soluble coffee is a major consumption growth driver, with single-serve sachets of 3-in-1 coffee (instant coffee mixed with non-dairy creamer and sugar) growing in popularity. Industry sources report that consumers are attracted to soluble coffee's affordability and convenience. In addition to sachet growth, processors have introduced plastic-bottled ready-to-drink (PB-RTD) coffee. Post notes that these novel products are marketed on their brand appeal and convenience, and charge a premium over soluble coffee sachets.



Source: company's website

3-in-1 coffee sachet and bicycle coffee sellers

Indonesia's coffee culture is new, and market leaders in Jakarta are finding novel ways to market themselves. Sachet coffee sellers have popped up on bicycles around Jakarta, offering instant coffee and hot water. The trend is growing in popularity and is expected to spread to other Indonesia cities, including Semarang, Surabaya, and Bandung.



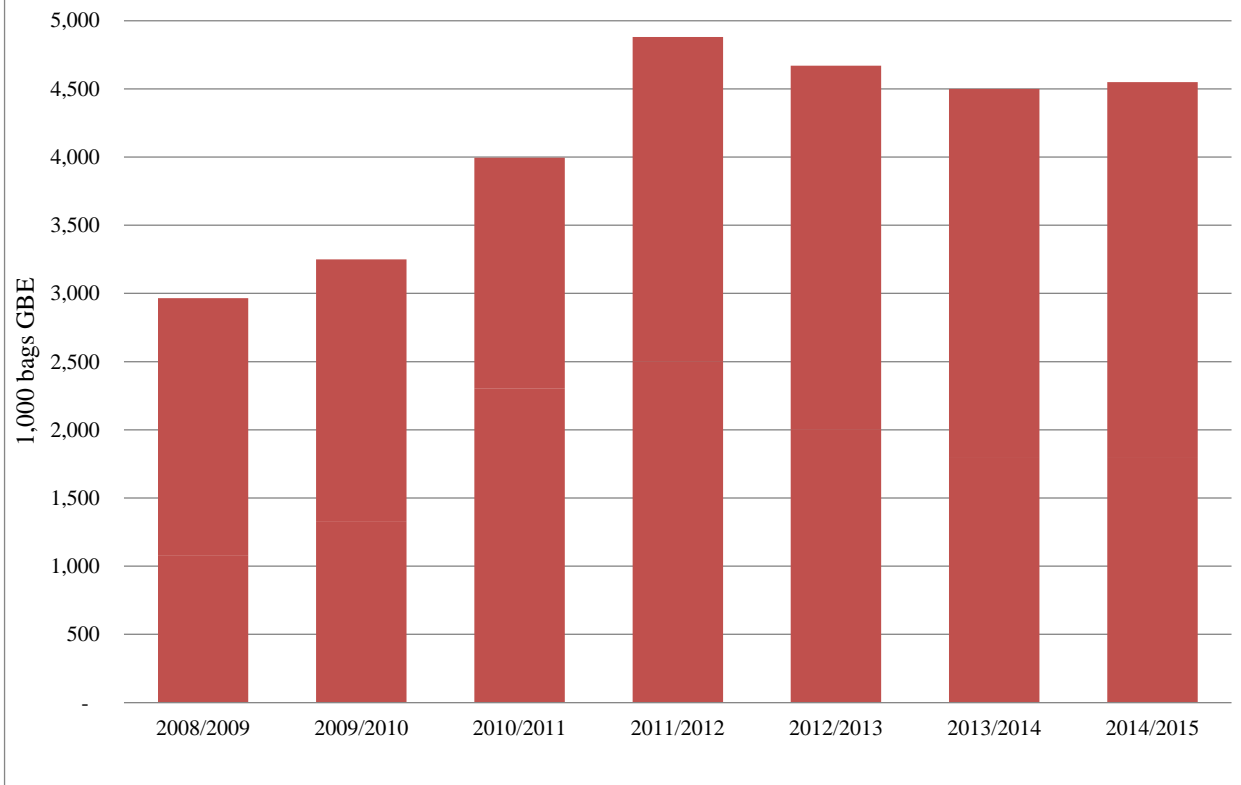
Source: www.motzter.com / <http://www.karbonjournal.org/>

Trade:

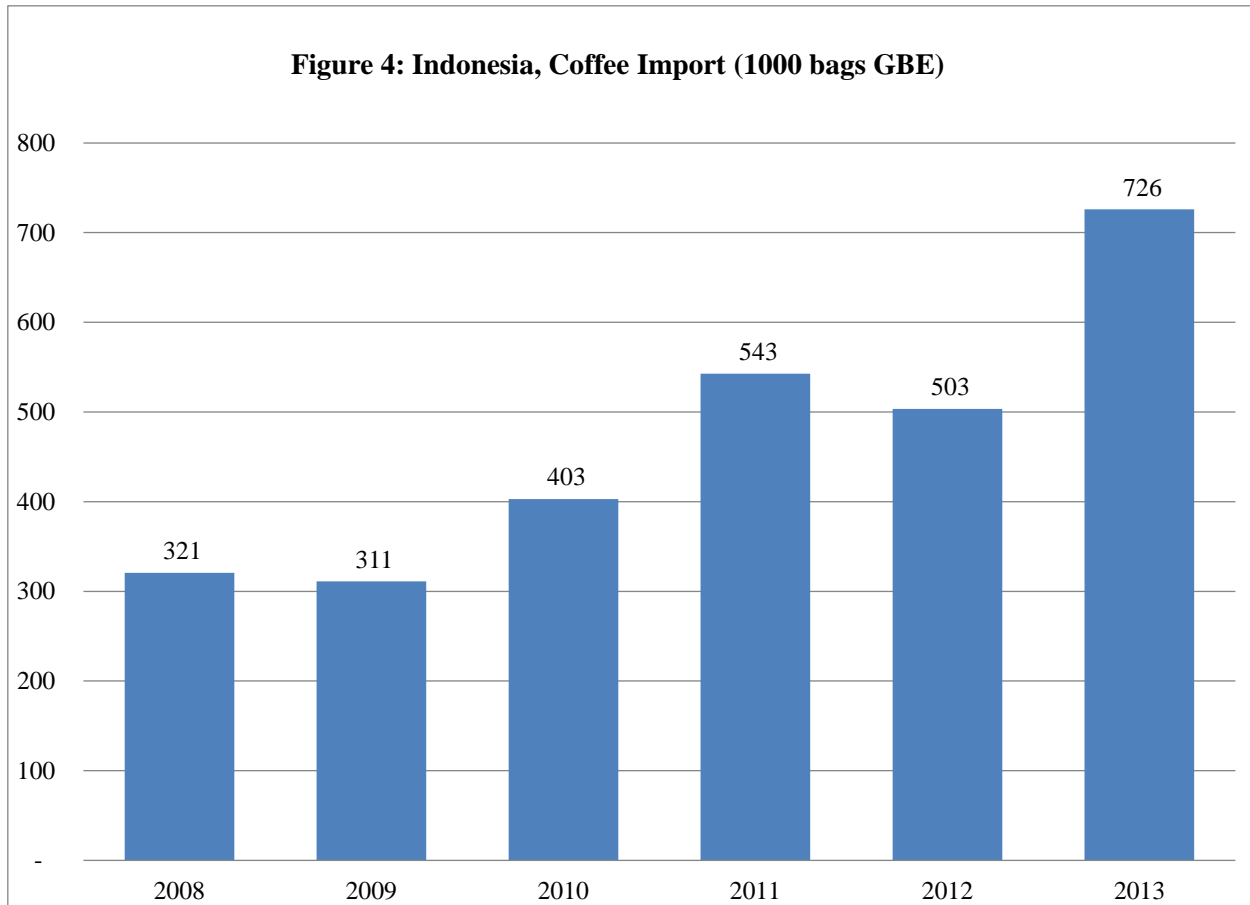
Diminished production and strong domestic consumption will reduce exportable supplies and increase coffee imports. Indonesian coffee exports are expected to drop 600,000 bags to 7.2 million bags GBE in MY 2014/2015. Imports are expected to grow from 0.93 million bags GBE in MY 2013/2014 to 0.985 million in MY 2014/2015.

Expanding coffee processing capacity in Indonesia has raised domestic demand for green coffee, reducing exportable green coffee availability. Industry estimates that domestic coffee processors will roast 5 million bags of green coffee in 2014. (86 percent of domestic roasting is controlled by six coffee processors). While Indonesian green coffee procurement has declined over the last three years, it remains above 4.5 million bags per year. Post expects that domestic coffee processors will procure 4.55 million bags of green coffee in MY 2014/2015.

**Figure 3: Indonesia, Green Coffee Procurement by Domestic Processors,
MY 08/09 - MY 14/15**



Source: USDA

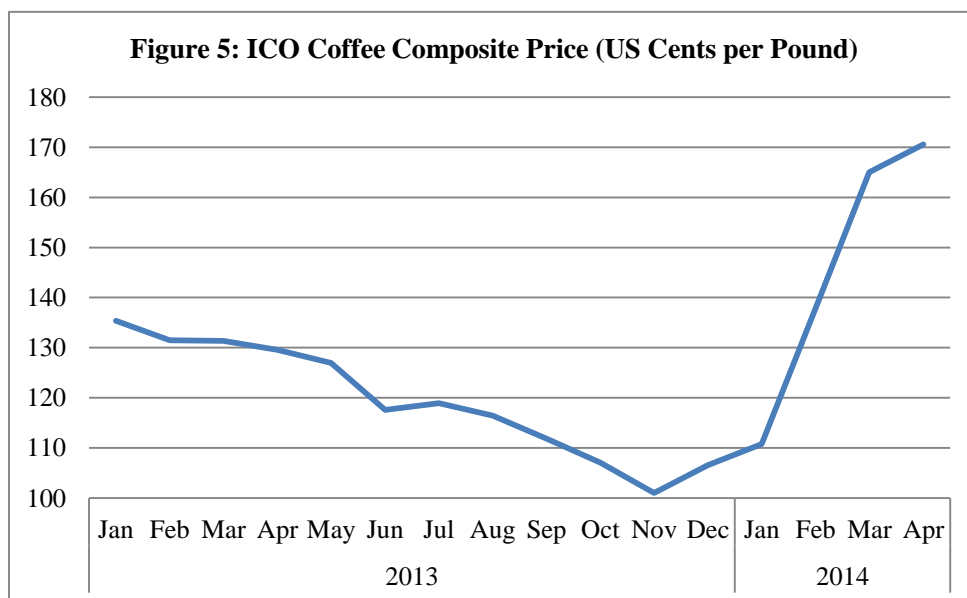


Source: Global Trade Information Services (GTIS), exporting countries perspective

Domestic green coffee procurement declines highlight Indonesia's production variability, putting domestic roasters in tough competition with green coffee exporters. Growing coffee imports (see figure 4) suggest that some roasters are unable to procure locally and are importing to utilize their optimal production capacity.

Stocks:

Lower production from major coffee producers such as Brazil and India has resulted in rising coffee prices. The International Coffee Organization's composite price demonstrates a steep increase in the January-April 2014 timeframe, closely matching Indonesian coffee prices. Arabica prices in Indonesia increased from IDR 25,000 per kilogram in 2013 to IDR 75,000 per kilogram during the first quarter of 2014. This pricing scenario has led Indonesian coffee exporters to draw down stocks. Consequently, ending stocks are expected to decrease from 48,000 bags GBE in MY 2013/2014 to 33,000 bags in MY 2014/2015.



Source: International Coffee Organization

Production, Supply and Demand Data Statistics:

Coffee, Green Indonesia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Apr 2012		Market Year Begin: Apr 2013		Market Year Begin: Apr 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,240	1,234	1,235	1,236		1,238
Area Harvested	1,180	1,180	1,200	1,200		1,220
Bearing Trees	1,245	1,118	1,265	1,136		1,155
Non-Bearing Trees	65	50	40	34		17
Total Tree Population	1,310	1,168	1,305	1,170		1,172
Beginning Stocks	88	88	98	98		48
Arabica Production	1,700	1,700	1,650	1,650		1,550
Robusta Production	8,800	8,800	7,850	7,850		7,350
Other Production	0	0	0	0		0
Total Production	10,500	10,500	9,500	9,500		8,900
Bean Imports	300	300	200	200		200
Roast & Ground Imports	150	150	175	175		175
Soluble Imports	630	630	375	555		610
Total Imports	1,080	1,080	750	930		985
Total Supply	11,668	11,668	10,348	10,528		9,933
Bean Exports	6,900	6,900	6,000	6,000		5,400

Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	2,000	2,000	1,800	1,800		1,800
Total Exports	8,900	8,900	7,800	7,800		7,200
Rst,Ground Dom. Consum	2,040	2,040	2,070	2,040		2,050
Soluble Dom. Cons.	630	630	430	640		650
Domestic Use	2,670	2,670	2,500	2,680		2,700
Ending Stocks	98	98	48	48		33
Total Distribution	11,668	11,668	10,348	10,528		9,933
1000 HA, MILLION TREES, 1000 60 KG BAGS						