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## **Indonesia**

## **Coffee Annual**

## **Indonesia Coffee Annual Report 2017**

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**Report Highlights:**

Indonesian coffee production is expected to increase from 10.6 million bags green bean equivalent (GBE) in MY 2016/17 to 10.9 million GBE in MY 2017/18. Growers and industry contacts report that total Robusta production is expected to rise slightly despite shortfalls in select regions, while Arabica production is expected to remain unchanged. Indonesian coffee consumption is expected to grow from 3.32 million bags GBE in MY 2016/17 to 3.4 million bags GBE in MY 2017/18, driven by Indonesia's expanding middle class and the growth of retail coffee outlets. Growing interest in coffee beverages is driving the growth of Arabica imports to Indonesia from diversified origins.

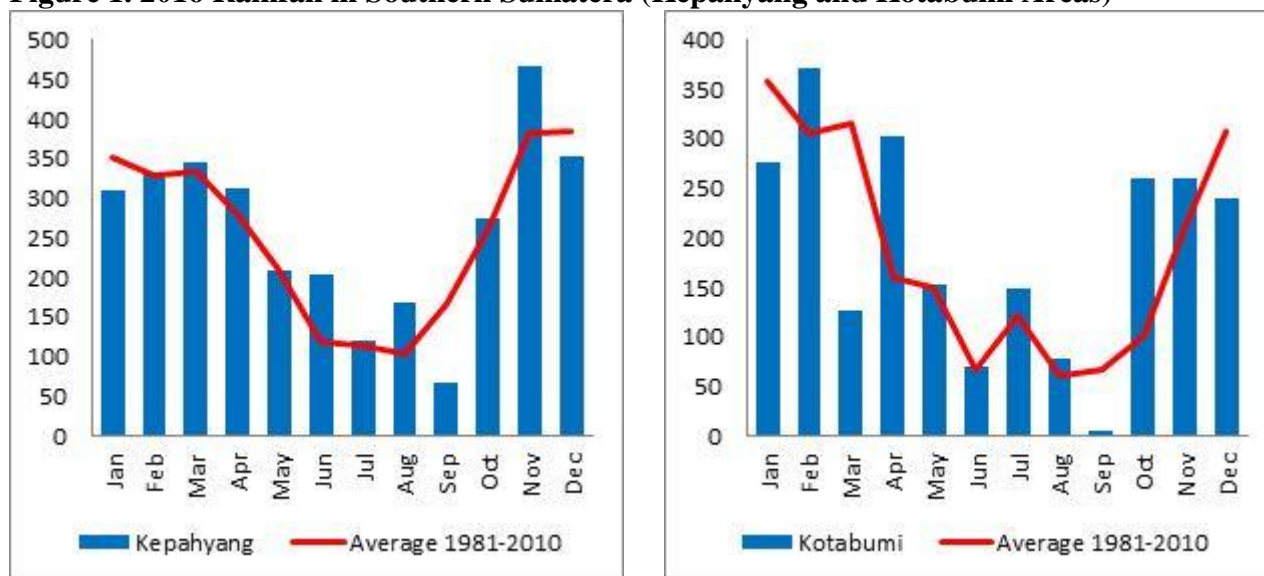
## Commodities:

Coffee, Green

## Production:

Indonesian coffee production is expected to increase from 10.6 million bags green bean equivalent (GBE) in MY 2016/17 to 10.9 million GBE in MY 2017/18. Industry contacts report that highland Robusta production is expected to be down following excessive rainfall during the October –November 2016 flowering period. However lowland coffee production is expected to increase, offsetting the highland declines. As a result, total Robusta production is expected to rise by 300,000 bags to 9.6 million bags.

**Figure 1. 2016 Rainfall in Southern Sumatera (Kepahyang and Kotabumi Areas)**



**Source: BMKG**

Arabica coffee growers indicate production is stable. Growers in northern Sumatera, which is home to 80 percent of Indonesia's Arabica production, report that weather was favorable during the flowering and ripening stages. As a result, Arabica production is expected to remain unchanged at 1.3 million bags GBE in 2017/18 and harvest will peak in May.

Overall production is relatively unchanged, although there are reports of slight increases in plantings. Industry contacts report that new Robusta supplies are being sourced in Jambi province, Sumatera. Based on these reports, Post has increased Indonesian planted area from 1.24 to 1.25 million hectares. In addition to nominal planting increases, coffee industry contacts report that Indonesian growers continue to use low-yielding production techniques. Growers are believed to prefer low-yielding production techniques as they cost less and require fewer labor inputs. Additionally, the pruning required to introduce higher yields would result in short term production deficits and cash flow interruptions.

Approximately 85 percent of Indonesia's coffee production is made up by Robusta bean production, while the remaining 15 percent is Arabica beans. Robusta bean production is concentrated in southern Sumatera, while the majority of Arabica production is located in northern Sumatera. Coffee is also produced in Java, Sulawesi, Bali and Flores.

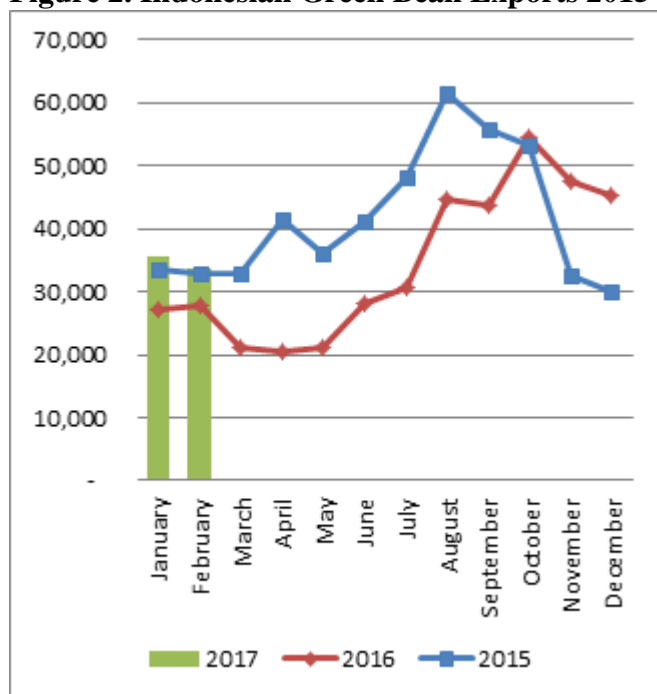
### Consumption:

Post expects Indonesian coffee consumption to grow from 3.32 million bags GBE in MY 2016/17 to 3.4 million bags GBE in MY 2017/18. Consumption growth is being driven by Indonesia's expanding middle class, and their growing taste for coffee. This is supported by the growth of retail coffee outlets, including independent shops and retail chains such as Starbucks and Indonesia's Maxx Coffee and Excelso Coffee. Starbucks has grown to 240 retail outlets in Indonesia since 2002, while Maxx has grown to 70 outlets since opening in 2015. While Indonesian production can easily meet local demand, Post notes that curious consumers are driving imports of high value Arabica beans from non-Indonesian origins.

### Trade:

Post revises its Indonesian export number to 7.2 million bags GBE in MY 2016/17, reflecting 11 months of trade data (April 2016 to February 2017). Exports are more aggressive than expected, with January -February 2017 green bean exports 25 percent higher than the same period in 2016 (although export levels match Jan-Feb 215 performance). Post expects that coffee bean exports will increase to 7.3 million bags GBE in MY 2017/18, reflecting out-year production that is consistent with the current year and stable international demand for Indonesian coffee.

**Figure 2. Indonesian Green Bean Exports 2015-2017 (MT)**

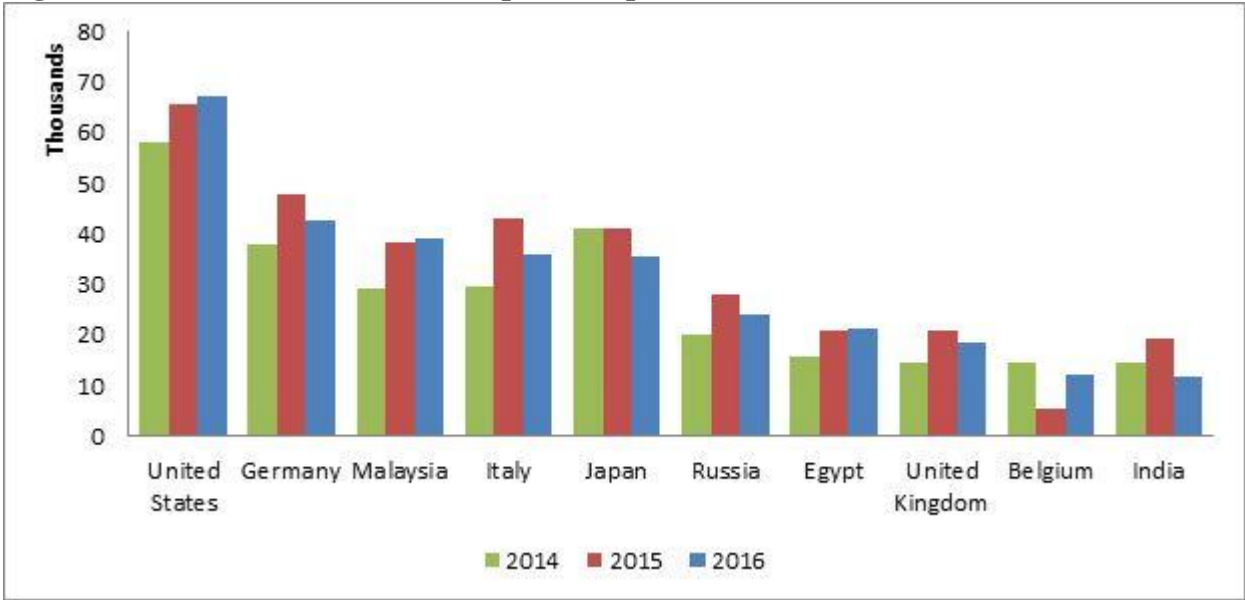


**Source: BPS**

Indonesia's bean imports are revised down to 320 thousand bags in MY 2016/17, also based on April 2016 to February 2017 trade data. Imports reflect smaller than expected Robusta imports from Vietnam, likely due to increased Robusta production in Indonesia. Additionally, MY 2016/17 green bean imports from Brazil, mostly Arabica, are lower than expected, although unlikely to be lower than 2015/16. Note

that Arabica consumption in Indonesia is expected to continue to rise in response to the Indonesian middle class’s demand for coffee, reflecting new import demand for imported Arabica beans from diversified origins. MY 2017/18 imports are set at 705 thousand bags GBE in response to an expected slight increase in Robusta production, thus offsetting demand for imports of Robusta for the soluble coffee industry.

**Figure 3. Indonesian Green Bean Exports, Top 10 Destinations CY 2014-2016 (MT)**



**Source:** GTIS

**Stocks:**

MY 2016/17 ending stocks are revised downwards to 44 thousand bags GBE reflecting stronger than expected exports. MY 2017/18 ending stocks are expected to grow to 49,000 bags GBE.

