

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 3/31/2015

GAIN Report Number: ID1511

Indonesia

Cotton and Products Annual

Indonesia Cotton and Products Annual Report 2015

Approved By:

Ali Abdi

Prepared By:

Thom Wright, Sugiarti Meylinah

Report Highlights:

Favorable cotton prices relative to synthetic fibers prices, combined with the expansion of large mills, have led to higher imports and consumption of cotton. Assuming stable cotton prices, the trend is expected to continue to MY 2015/16. Post therefore estimates MY 2014/15 Indonesian cotton imports to increase by 10 percent to 3.28 million bales and MY 2015/16 to further increase to 3.5 million bales. The depreciated rupiah supports textile and yarn exports.

Commodities:

Select

Situation and Outlook

Executive Summary

The Indonesian Rupiah continues to decline, reaching Rp. 13,022/\$1 on March 5, 2015. This trend is expected to continue through CY2015, creating export opportunities for Indonesian textiles. The Indonesian Textile Association (API, *Asosiasi Pertekstilan Indonesia*) reports that Indonesian textile exports increased by 0.6 percent to \$12.85 trillion during calendar year (CY) 2014, (compared to \$12.78 trillion in CY 2013). This includes an export increase of cotton fabrics from 29,000 metric tons (MT) in CY 2013 to 188,000 MT in CY 2014. Japan, Belgium, Italy, and the United States are Indonesia's major export destinations for cotton fabric. The increase in cotton fabric exports has more than offset the slight decline in cotton yarn exports.

Production

Indonesia produces 0.3 percent of its total domestic cotton demand, with official reports indicating that production has decreased an average of 24.79 percent annually since 2008. Cotton production declines are due to high production costs as well as agronomic risks due to excessive rainfall. Given these concerns, local cotton production has been marginalized to intercropping systems or less productive lands primarily in South Sulawesi, East Java, West Nusa Tenggara, and Central Java. Other limiting factors include the conversion of land to nonagricultural uses and financial constraints that limit access to high yielding varieties and more efficient cultivation practices. As a result, Post estimates that cotton production will decline to 21,000 bales in MY 2014/15 and MY 2015/16.

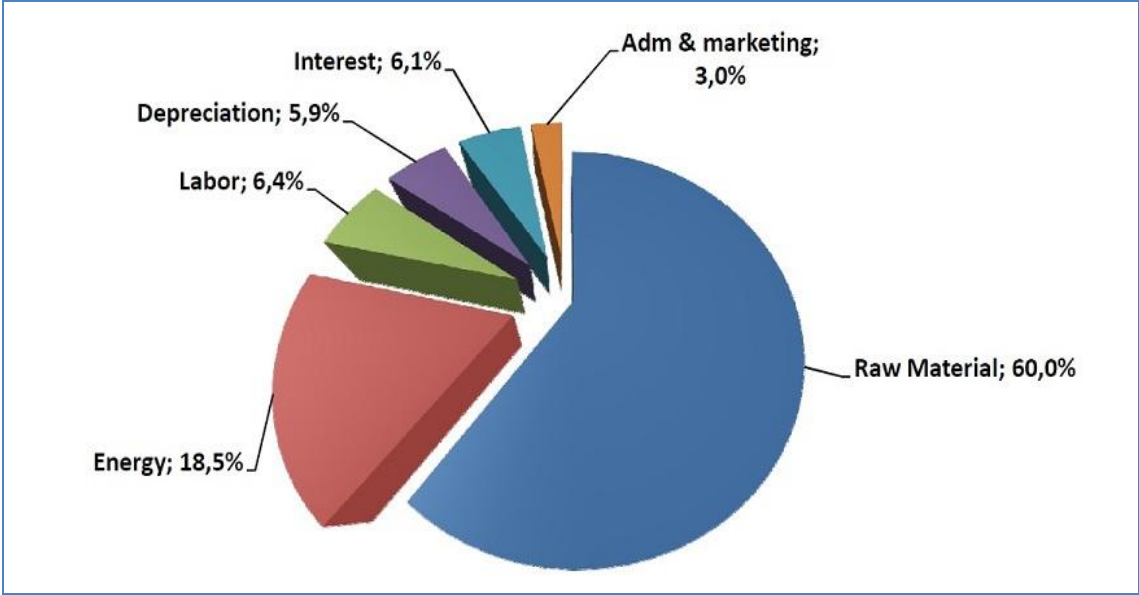
Consumption

The Indonesian spinning sector produces spun yarn and sewing thread. The sector is expanding, having grown from 251 companies in CY 2012 to 260 companies in CY 2013, with total install capacity growing from 3.094 million metric tons (MMT) of yarn to 3.483 MMT. In CY 2013, Indonesian spinning mills ran at 86.2 percent capacity, with a total of 10.967 million spindles and 179,385 rotors, compared to 10.21 million spindles and 175,513 rotors in CY 2012. In 2013, industry sources reported that the Indonesian spinning industry consumed a total of 2.6 MMT of fiber as raw material annually, consisting of cotton (26 percent), man-made fiber (73 percent), and others (1.1 %). Indonesia exports approximately 30 percent of its yarn production.

A gradual increase in electricity tariffs since May 2014 has increased synthetic fiber production costs, pushing up synthetic yarn and thread prices. Simultaneously, Chinese cotton production policy changes and higher international cotton supplies have helped drive cotton prices down, while cotton yarn prices

remain high relative to synthetic yarn. As a result of these factors, Indonesian spinners have switched from synthetic fibers to cotton.

Figure 1. Indonesian Spinners’ Production Cost Structure



Industry contacts report that the GOI implemented an “Automatic Tariff Adjustment” on electricity tariffs for customers using 1,300 VA, as of January 1, 2015. As per Ministry of Energy and Mineral Resources regulation No. 31/2014, electricity tariffs are now based on exchange rates, average crude oil prices, and inflation. Most of Indonesia’s yarn producers are included in this category. Indonesian electricity tariffs are among the highest in Asia, thus lowering Indonesia’s competitiveness as a cotton yarn producer and inhibiting potential growth for exports.

Table 1. Comparison of Asian Electricity Tariffs

<u>Country</u>	<u>Tariff per kWh*</u>	<u>Remarks</u>
Myanmar	\$ 3.00	
South Korea	\$ 5.52	<i>Discount for industrial use on certain hours</i>
Thailand	\$ 6.00	<i>Discount for industrial use on certain hours</i>
India	\$ 7.00	
Taiwan	\$ 7.00	<i>Discount for industrial use on certain hours</i>
China	\$ 7.50	<i>Discount for industrial use during 11.00 PM - 05.00 AM</i>
Indonesia	\$ 9.70	
<i>Source : Electricity Pricing – Wikipedia.com</i>		
<i>* Note: Exchange rate : Rp. 12.300,/\$.</i>		

Due to favorable cotton prices and supplies, Post estimates that MY 2014/15 Indonesian cotton consumption will increase to 3.25 million bales from 3.05 million bales. MY 2015/16 Indonesian cotton consumption is expected to increase to 3.4 million bales due to expanded mill capacity and an expected decrease in international cotton prices.

Stocks

Despite declining cotton prices, rising storage costs prevent Indonesian spinners from maintaining large inventories. As a result, spinners prefer to source raw materials on an as-needed basis. Therefore, Post estimates MY 2014/15 Indonesian ending stocks will slightly decline to 542,000 bales from previous estimate of 550,000 bales. Post's MY 2015/16 cotton ending stock estimate is expected to increase slightly to 607,000 bales, tracking with expected higher imports and consumption.

Marketing

Large and export-oriented manufacturers with stronger cash flows are expanding their capacity through the procurement and installment of new machineries. Unlike smaller mills using 20 year old technology, these larger mills are using newer and more efficient cotton spinning technology. There is strong demand for Indonesian textile products in the Indonesian market, although local textile manufacturers face strong competition from lower-priced imports. Declining textile exports to the United States and other ASEAN countries were offset by rising demand from Japan and Europe throughout CY 2014.

Based on the above-mentioned situation as well as import data, Post estimates MY 2014/15 Indonesian cotton imports to 3.28 million bales compared to the previous estimate of 3.15 million bales. Assuming higher cotton supplies will decrease prices, and an improving world economy will increase demand for

Indonesian textiles, Post forecasts MY 2015/16 Indonesian cotton imports to further increase to 3.5 million bales.

During the first five months of MY 2014/15 Brazil overtook the United States as the largest cotton supplier to Indonesia with a total market share of 45 percent. The United States and Australia followed with 22 percent and 13 percent market share respectively. Despite quality issues, Indian, Brazilian, and African cotton are considered adequate by Indonesian industry standards. Indonesia's primary yarn export destinations were China (68 percent), Japan (15 percent), South Korea (5 percent), and Hong Kong (4 percent) in CY 2014.

Policy

The Indonesian Supreme Court revoked GOI Regulation No. 31.2007 on February 25, 2014, ending the ten percent value added tax (VAT) exemption for cotton. The VAT was implemented on July 25, 2014. Industry reports that the 10 percent VAT on cotton will be passed on as higher end products prices, reducing export competitiveness. Indonesian spinning mills import more than 90 percent of their cotton demand.

I. Statistical Tables

TABLE 2. PSD COTTON (HS CODE 5201) IN BALES

<i>Cotton</i> <i>Market Begin Year</i> <i>Indonesia</i>	2013/2014		2014/2015		2015/2016	
	Aug 2013		Aug 2014		Aug 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	10	0	10	0	10
Area Harvested	9	9	9	9	0	9
Beginning Stocks	641	641	600	550	0	542
Production	25	25	25	21	0	21
Imports	2,989	2,989	3,250	3,280	0	3,500
MY Imports from U.S.	0	700	0	705	0	710
Total Supply	3,655	3,655	3,875	3,851	0	4,063
Exports	5	5	5	7	0	7
Use	3,050	3,050	3,200	3,250	0	3,400
Loss	0	50	0	52	0	52
Total Dom. Cons.	3,050	3,100	3,200	3,302	0	3,452
Ending Stocks	600	550	670	542	0	604
Total Distribution	3,655	3,655	3,875	3,851	0	4,063
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Note: last column of each marketing year is not official USDA data.

TABLE 3. PSD COTTON (HS CODE 5201) IN MT

<i>Cotton</i>	2013/2014	2014/2015	2015/2016
<i>Market Begin Year</i>	Aug 2013	Aug 2014	Aug 2015

<i>Indonesia</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	10	0	10	0	10
Area Harvested	9	9	9	9	0	9
Beginning Stocks	139,563	139,563	130,636	119,750	0	118,008
Production	5,443	5,443	5,443	4,572	0	4,572
Imports	650,784	650,784	685,838	714,143	0	762,042
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	795,790	795,790	821,917	838,464	0	884,622
Exports	1,089	1,089	1,089	1,524	0	1,524
Use	664,066	664,066	674,952	707,611	0	740,270
Loss	0	10,886	0	11,322	0	11,322
Total Dom. Cons.	664,066	674,952	674,952	718,933	0	751,592
Ending Stocks	130,636	119,750	145,877	118,008	0	131,507
Total Distribution	795,790	795,790	821,917	838,464	0	884,622
Stock to Use %	20	18	22	17	0	17.73
Yield	605	0	605	0	0	0.0000

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

TRADE MATRIXES

TABLE 4. COTTON IMPORT TRADE MATRIX (MY 2013 - 2015)

Country	Indonesia				
Commodity	Cotton				
Time Period	Aug - Jul	Units:	1,000 MT	Units:	1,000 MT
Imports for:	2012/13	Imports for:	2013/14	Imports for:	2014/15*
U.S.	116	U.S.	152	U.S.	64
Others		Others		Others	
Brazil	152	Brazil	115	Brazil	129
Australia	111	Australia	79	Australia	38
Malaysia	38	India	56	Greece	18
India	29	Cote d'Ivoire	34	Argentina	17
Greece	23	Mali	25	Cote d'Ivoire	8
Mali	23	Burkina Faso	21	India	6
Cote d'Ivoire	22	Greece	16	Spain	4
Tanzania	22	Tanzania	16	China	2
Mozambique	19	Pakistan	15		
Pakistan	15	Mozambique	13		
Argentina	11	Argentina	12		
Nigeria	11	Malaysia	7		
Uganda	11	Spain	6		
South Africa	10	South Africa	6		
Paraguay	6	Uganda	4		
Mexico	3	Paraguay	1		
Spain	3	Senegal	1		
Total for Others	509	Total for Others	427	Total for Others	222
Others not Listed	28	Others not Listed	80	Others not Listed	2
Grand Total	653	Grand Total	659	Grand Total	288

Source: Global Trade Atlas.

Note: *for the period of Aug – Dec 2014 only.

TABLE 5. COTTON EXPORT TRADE MATRIX (MY 2013 – 2015)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton, HS Code 5201				
Time Period	Aug-Jul	Units:	MT	Units:	MT

Exports for:	2012/13		2013/14		2014/15
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Japan	406	Vietnam	173	Sri Lanka	300
Thailand	743	Sri Lanka	148	Vietnam	157
India	6	Taiwan	132	Taiwan	32
				Malaysia	24
				Saudi Arabia	21
Total for Others	1155		453		534
Others not Listed	8		0		2
Grand Total	1163		453		536
Source: Global Trade Statistics.					

TABLE 6. COTTON YARN IMPORT TRADE MATRIX (CY 2013 – 2014)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2013		2014
U.S.	0	U.S.	0
Others		Others	
India	8	India	9
South Korea	4	South Korea	4
China	4	China	3
Hong Kong	1	Hong Kong	1
Total for Others	17	Total for Others	17
Others not Listed	1	Others not Listed	1
Grand Total	18	Grand Total	18

Source: Global Trade Atlas.

TABLE 7. COTTON YARN EXPORT TRADE MATRIX (CY 2013 – 2014)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2013		2014
U.S.	2		1
Others		Others	
China	99	China	93
Japan	20	Japan	21

South Korea	6	South Korea	7
Bangladesh	4	Hong Kong	6
Turkey	3	Malaysia	2
Hong Kong	3	Germany	1
Taiwan	1	Guatemala	1
Germany	1	Turkey	1
Total for Others	137	Total for Others	132
Others not Listed	9	Others not Listed	4
Grand Total	148	Grand Total	137

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC IMPORT TRADE MATRIX (CY 2013 - 2014)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan-Dec	Time Period	Jan - Dec
Exports for:	2013	Exports for:	2014
U.S.	0	U.S.	2
Others		Others	
China	37	China	229
Korea, Rep. of	12	Korea, Rep. of	78
Hong Kong	12	Hong Kong	61
Taiwan	2	Pakistan	12

Pakistan	2	Malaysia	10
India	1	Vietnam	9
Vietnam	1	Japan	8
		Taiwan	8
		India	7
		Italy	2
		Macau	2
		Turkey	2
		Thailand	1
		Belgium	1
Total for Others	67	Total for Others	430
Others not Listed	3	Others not Listed	5
Grand Total	70	Grand Total	437

Source: Global Trade Atlas.

TABLE 9. COTTON FABRIC EXPORT TRADE MATRIX (CY 2013 - 2014)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT		
Time Period	Jan-Dec		Jan-Dec
	2013		2014
U.S.	2	U.S.	13
Others		Others	
Japan	8	Japan	56
Belgium	2	Belgium	16
Italy	2	Italy	13
Bangladesh	2	Korea Rep. of	10
Turkey	2	Germany, Fed. Rep.	10
Korea Rep. of	3	Turkey	8
China	1	Netherlands	7
Netherlands	1	Cambodia	7

Vietnam	1	Vietnam	7
		Bangladesh	6
		Israel	4
		China	3
		Portugal	3
		Brazil	3
		Thailand	2
		United Arab Emirates	2
		Malaysia	2
		Spain	2
		Canada	2
		Singapore	2
		Hong Kong	1
		Philippines	1
Total for Others	22	Total for Others	167
Others not Listed	5	Others not Listed	8
Grand Total	29	Grand Total	188

Source: Global Trade Atlas.

TABLE 10. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2012 - 2013

Value is in \$1,000 and volume is in MT

Products	2012		2013	
	Value	Volume	Value	Volume
Manmade Fibers	592,541	334,858	563,890	346,366
Yarns	2,218,870	748,597	2,423,703	888,210
Fabrics	1,855,659	281,833	1,802,128	286,341
Garments	7,184,171	446,282	7,383,782	466,850
Other Textile Products	610,459	143,124	505,774	112,689
TOTAL	12,461,700	1,954,694	12,679,277	2,100,456

Source: BKPM, BPS, and MOI

TABLE 11. TEXTILE AND TEXTILE PRODUCT IMPORTS IN 2012 - 2013

Value is \$ 1,000 and Volume is in 1,000 kg

Products	2012		2013	
	Value	Volume	Value	Volume
Manmade Fibers	2,214,182	940,703	2,225,445	992,048
Yarns	658,065	206,353	722,259	223,239
Fabrics	4,163,624	521,498	4,559,863	595,941

Garments	378,639	43,929	476,382	62,557
Other Textile Products	729,043	181,154	488,736	87,149
TOTAL	8,143,553	1,893,637	8,472,685	1,960,934

Source: BKPM, BPS, and MOI

Note: Exchange rate is Rp. 12,993/\$ 1, as of March 2, 2015.