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# GAIN Report

Global Agricultural Information Network

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## **Indonesia**

## **Cotton and Products Annual**

## **Indonesia Cotton and Products Annual Report 2018**

**Approved By:**

Garrett McDonald

**Prepared By:**

Sugiarti Meylinah

**Report Highlights:**

The United States' position as the leading supplier of cotton to Indonesia was overtaken by Brazil during the period August 2017 to January 2018. Imports are forecast downward for 2017/18 due to lower costs and higher margins from synthetic fibers. A slight increase is expected in 2018/19 due to higher domestic consumption related to 2019 political campaigns.

## **Situation and Outlook**

### **Executive Summary**

Cotton imports for 2017/18 are estimated to decline to 3.2 million bales compared to the previous estimate of 3.5 million bales due to less competitiveness against synthetic fibers. Despite synthetic fiber's price increasing in line with fossil fuel prices, availability to source the fibers from domestic producers has provided manufacturers with better cash flow management and higher margin than producing yarn from imported cotton. Overall improving domestic market conditions due to less illegal imports of textile and textile products as well as growing middle-class incomes are increasing demand for higher quality fabrics, providing opportunity for cotton consumption. The World Bank reported in December 2017 that Indonesia's middle-class accounts for approximately 52 million people whose consumption accounts for about 42 percent of total household expenditure. Industry association expected the overall textile industry to grow by 5 percent in line with Indonesian economic growth. These factors combined with expected higher demand for campaign material during the upcoming 2019-election year will drive higher imports of cotton in 2018/19, which is forecast to rebound to 3.3 million bales.

Consistent with the decreasing cotton imports in 2017/2018, Indonesian textile and textile product exports during January to December 2017 have also decreased. Indonesian Textile Association (API, *Asosiasi Pertekstilan Indonesia*) reported that the value of Indonesian textiles and product exports to the United States declined by 2.9 percent to \$4.759 billion from \$4.903 billion in the previous year. Exports to European Union also declined by 4.7 percent to €1.57 billion from €1.65 billion in 2016. Indonesia's major export destinations for textiles are the United States (32.34 percent market share), the European Union (14.97 percent), and Japan (10.08 percent). Indonesian demand for locally made textiles is also declining due to competition from low cost imports and weakening consumer purchasing power, attributable to the weak rupiah. The Indonesian rupiah continues to fluctuate, ranging from Rp. 13,514 in November 2017 to Rp. 13,765 per US dollar in March 2018.

### **Production**

Indonesia does not produce significant volumes of cotton. Based on recent Directorate General for Estate Crops of the Indonesian Ministry of Agriculture (DGEC, MOA) report, 2017/18 cotton production is estimated to decrease to 3,000 bales, compared to 5,000 bales produced in 2016/17. The decline is due to farmers' preference to other crops such as paddy and corn. Cotton production is forecast to remain stagnant during 2018/2019 at 3,000 bales. The volume of domestic cotton production contributes to less than 0.25 percent of Indonesia's total cotton demand.

The few Indonesian farmers that do grow cotton have limited access to high yielding varieties and cultivation practices. Increased land conversion to nonagricultural uses also reduces the area dedicated to cotton. DGEC reported that in 2017/18 most cotton was grown on marginal lands, primarily in South Sulawesi and East Nusa Tenggara.

### **Consumption**

Indonesian cotton consumption is forecast to decline to 3.25 million bales from the previous estimate of 3.45 million bales. Consumption is forecast to rebound to 3.3 million bales in 2018/19 as Indonesia prepares for the 2019 election year when demand for campaign clothes is high.

Despite increasing production in the United States, Brazil, and India, prices of cotton on international market are increasing due to higher demand from importing countries leading to tighter exportable supply. Future prices of cotton for May 2018 shipments have increased to 82.5 cents per pound from 77 cents per pound for March 2018. Additionally, the Indonesian rupiah continues to weaken against the US dollar, driving up the cost of imported raw materials.

The Indonesian Ministry of Finance, through the Directorate General of Customs, began to fully enforce the oversight of illegal imports of textile and textile products during the first quarter of 2017/18. The measure has increased the competitiveness of domestic spinners and weavers. Growth of domestic demand is estimated to reach 10-15 percent in 2017/18. Textile manufacturers producing yarn and fabrics, which were previously dependent on imported raw material, are now sourcing from domestic manufacturers, especially for synthetic fibers.

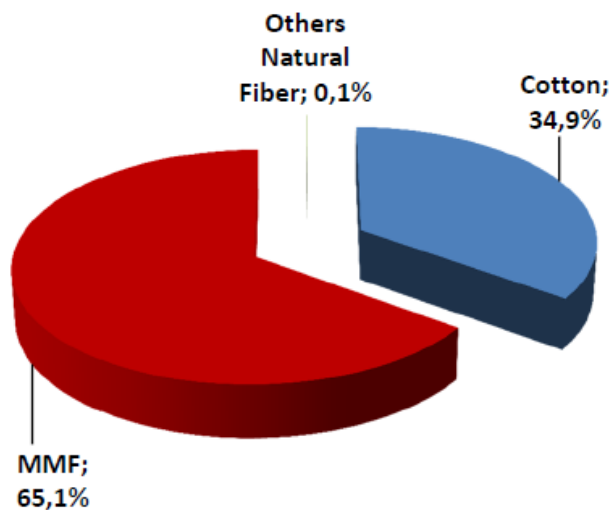
Historically, cotton yarn prices are higher than polyester yarn. These higher prices normally translate into higher profitability from spinning cotton rather than polyester. However, as of late 2017, industry sources report that polyester spun yarn has been providing a better return than cotton due to more stable prices of raw materials and shorter lead time as most of the polyester fiber is produced domestically. Hence, mills who have switched to polyester during the second quarter of 2017/18 have mostly opted to continue spinning polyester over cotton.

Prominent large-scale cotton mills with strong capital have been buying small-scale mills, which had been struggling with cash flow problems for several years. To improve efficiency while continuing expansion, some large-scale textile mills relocated to Central Java, which has lower minimum provincial wage (UMP, *Upah Minimum Propinsi*) level compared to other textile manufacturing areas such as West Java and East Java. The relocations provided opportunities for consolidation and capacity expansions. In 2017, UMP in West Java, Central Java, and East Java were Rp 1,544,360; Rp 1,486,065; and Rp 1,508,894, respectively. The textile industry comprised 2.5 percent of the total workforce in 2017.

Ministry of Industry (MOI) plans to continue a machinery revitalization program this year. The program was funded through the national budget and provided a 10 percent subsidy to manufacturers who bought new machinery, with each manufacturer joining the program receiving a maximum of Rp.5 billion for revitalizing old machinery. In 2018, MOI plans to source funds from international investors. The full details of the new program have yet to be announced.

A recent MOI report showed that in 2016 Indonesian spinning mills ran at 82 percent capacity, with a total of 12.10 million spindles, an increase from total installed capacity of 11.92 million spindles and 65.38 percent running capacity in 2015. API estimates that for 2017 Indonesian spinning mills continued running at 82 percent capacity with a total installed capacity of 12.29 million spindles.

## Composition of Fiber Consumption



Source: Indonesian Textile Association (API).

### Trade

In line with declining demand due to a weaker exchange rate and competition from synthetic fibers, 2017/18 cotton imports are estimated to decline to 3.2 million bales compared to the previous estimate of 3.5 million bales. Imports are forecast to rebound to 3.3 million bales in 2018/19 due to higher domestic consumption.

During the period of August 2017 to January 2018, the United States' position as the leading supplier of cotton to Indonesia was overtaken by Brazil. Brazil currently accounts for 47 percent of market share, followed by the United States, India, and Greece with 35 percent, 10 percent, and 4 percent market share, respectively. One reason for Brazil's increasing market share is delayed shipments from the United States during the first quarter of 2017/18, resulting in some buyers switching to Brazil origin product.

### Stocks

Rising storage costs prevent Indonesian spinners from maintaining large inventories. As a result, spinners prefer to source raw materials on an as-needed basis. Combined with lower imports, 2017/18 cotton ending stocks are estimated to decline to 564,000 bales compared to the previous estimates of 667,000 bales. Consistent with a marginal increase of imports and higher consumption, stock are forecast to decrease to 561,000 bales in 2018/19.

Indonesian spinners rely heavily on imported cotton. Operational practices require cotton spinners to maintain two months of stocks on hand plus one month of on the way stocks in order to maintain uninterrupted production. (This contrasts with manmade fiber spinners who typically hold two weeks of

stocks on hand plus one week of on the way stocks). Spinners report an advantage from importing cotton from suppliers with shorter shipping times. As a result, if not because of price competitiveness, compared with Australian and African shipping times, US exports to Indonesia tend to be at a disadvantage.

## Marketing

Indonesian importers have access to commercial credit for financing imports. Financing arrangements through Australian cotton suppliers using 180 day Letters of Credit with 0.8 percent interest have also attracted Indonesian buyers. In the past, U.S. programs such as GSM-102 were competitive compared to local creditors, however under current commercial terms importers have shown little interest in the program.

## Policy

In order to continue supporting the textile industry, Indonesian Ministry of Finance imposes zero percent duty on cotton imports. On the other hand, to protect domestic market from floods of cheaper priced products, higher import duties and value added taxes are imposed on cotton yarn and fabrics.

**Table 1. Harmonized Tariff Nomenclature**

N o.	HS Code	Description	Import Duty		V A T
			Ne w	O ld	
1.	5201	Cotton, not carded or combed	0	0	0
2.	5204	Cotton sewing thread, whether or not put up for retail sale	5	5	10
3.	5205	Cotton yarn (other than sewing thread), containing 85 percent or more by weight of cotton, not put up for retail sale	5	5	10
4.	5207	Cotton yarn (other than sewing thread) put up for retail sale	5	5	10
5.	5208	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200 gram/square meter	10	1 0	10
6.	5209	Woven fabrics of cotton, containing more than 85 percent or more by weight of cotton, weighing more than 200 gram/square meter	10	1 0	10

Source: Indonesian Custom Tariff Book 2012

On August 31, 2017, Indonesian Ministry of Trade (MOT) stipulated regulation No. 64/2017 on Imports of Textile and Textile Products as an amendment to MOT regulation No. 85/2015. Industry considers the regulation as counterproductive to the abovementioned Directorate General of Custom's measure to reduce illegal imports. The regulation allows traders who hold a general importer identification number to import fiber, yarn, and fabrics to be distributed to textile manufacturers that do not directly import the raw material. In the previous regulation, only textile manufacturers holding a producers importer identification number could import fiber, yarn, and fabrics to be used as raw material for production.

### I. Statistical Tables

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

Cotton	2016/2017	2017/2018	2018/2019
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Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	5	3	5	0	5
Area Harvested	3	3	2	3	0	3
Beginning Stocks	528	528	619	617	0	564
Production	5	5	3	3	0	3
Imports	3391	3391	3500	3200	0	3300
MY Imports from U.S.	0	1472	0	1290	0	1300
Total Supply	3924	3924	4122	3820	0	3867
Exports	5	7	5	6	0	6
Use	3300	3300	3450	3250	0	3300
Loss	0	0	0	0	0	0
Total Dom. Cons.	3300	3300	3450	3250	0	3300
Ending Stocks	619	617	667	564	0	561
Total Distribution	3924	3924	4122	3820	0	3867
Stock to Use %	18.73	18.66	19.31	17.32	0	16.97
Yield	363	363	327	218	0	218

(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**

Cotton	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	5	3	5	0	0
Area Harvested	3	3	2	3	0	0
Beginning Stocks	114,960	114,960	134,773	134,337	-	122,798
Production	1,089	1,089	653	653	-	653
Imports	738,310	738,310	762,042	696,725	-	718,497
MY Imports from U.S.	-	320,493	-	280,867	-	283,044
Total Supply	854,358	854,358	897,468	831,715	-	841,948
Exports	1,089	1,524	1,089	1,306	-	1,306
Use	718,497	718,497	751,156	707,611	-	718,497
Loss	-	-	-	-	-	-
Total Dom. Cons.	718,497	718,497	751,156	707,611	-	718,497
Ending Stocks	134,773	134,337	145,224	122,798	-	122,145
Total Distribution	854,358	854,358	897,468	831,715	-	841,948
Stock to Use %	18.73	18.66	19.31	17.32	0	16.97
Yield	363	79008	327	47405	0	0
TS=TD	0	0	0	0	0	0

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

## TRADE MATRIXES

**TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2015 - 2017)****Export Trade Matrix**

<b>Country</b>	Indonesia				
<b>Commodity</b>	Cotton, HS Code 5201				
Time Period	Aug-Jul	Units:	MT	Units:	MT
Exports for:	2015/16		<b>2016/17</b>		<b>2017/18</b>
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Vietnam	1343	Taiwan	335	Thailand	108
Sri Lanka	498	Vietnam	279	Taiwan	96
Malaysia	417	Hong Kong	217	Bangladesh	90
Taiwan	299	Sri Lanka	202	India	68
India	292	Malaysia	202	Malaysia	23
China	98	Greece	113	Japan	19
Hong Kong	40	Japan	56	Australia	1
Japan	35	Bangladesh	53	Bangladesh	
		India	50	India	
		China	41	China	
Total for Others	3022		1548		405
Others not Listed	21		32		2
Grand Total	3043		1580		407

Source: Global Trade Atlas.

Note: for 2017/18 only until Nov 2017

**TABLE 5. COTTON IMPORT TRADE MATRIX (MY 2015 – 2017)****Country** Indonesia

<b>Commodity</b>	<b>Cotton</b>					
Time Period	<b>Aug - Jul</b>	Units:	<b>1,000 MT</b>	Units:	<b>1,000 MT</b>	
Imports for:	<b>2015/16</b>	Imports for:	<b>2016/17</b>	Imports for:	<b>2017/18</b>	
U.S.	150	U.S.	304	U.S.	106	
Others		Others		Others		
Brazil	165	Brazil	124	Brazil	142	
Australia	60	Australia	72	India	29	
India	52	India	67	Greece	11	
Cote d'Ivoire	29	Greece	36	Pakistan	12	
Benin	24	Argentina	16	Argentina	6	
Burkina Faso	22	Cote d'Ivoire	15	Spain	5	
Greece	19	Burkina Faso	13	Tanzania	4	
Mali	19	Mali	13	Cameroon	4	
Malaysia	12	Cameroon	10	Togo	3	
Zambia	12	Benin	7	Burkina Faso	3	
Pakistan	11	Turkey	6	Mali	2	
Argentina	11	Pakistan	5	China	2	
Zimbabwe	9	Spain	5	Ethiopia	2	
Togo	9	Uganda	4			
Mexico	7	Zambia	4			
South Africa	7	Mexico	4			
Spain	5	Togo	3			
Total for Others	473	Total for Others	404	Total for Others	225	
Others not Listed	18	Others not Listed	31	Others not Listed	5	
Grand Total	641	Grand Total	739	Grand Total	336	

Source: Global Trade Atlas.  
Note: for 2017/18 only until Jan 2018

**TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2015 – 2017)**

**Export Trade Matrix**

<b>Country</b>	Indonesia
<b>Commodity</b>	Yarn



Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2016		2017
U.S.	2		1
Others		Others	
China	102	China	118
Japan	21	Japan	16
South Korea	11	South Korea	7
Bangladesh	10	Bangladesh	6
Hong Kong	4	Hong Kong	1
South Africa	1	Portugal	1
Vietnam	1	Vietnam	1
Philippines	1	Germany	1
		South Africa	1
		Philippines	1
Total for Others	151	Total for Others	153
Others not Listed	10	Others not Listed	8
Grand Total	163	Grand Total	162

Source: Global Trade Atlas.

Note: \* Only for the period of Jan-Nov 2017.

**TABLE 7. COTTON YARN IMPORT TRADE MATRIX (CY 2015 – 2017)**

**Import Trade Matrix**

Country	Indonesia			
Commodity	Yarn			
Time Period	Jan-Dec	Units:	1,000 MT	Units:
Exports for:	2016		2017	2018*

U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
India	10	India	3	India	
China	3	China	2	China	
Hong Kong	1				
Costa Rica	1				
Total for Others	15	Total for Others	5	Total for Others	
Others not Listed	3	Others not Listed	2	Others not Listed	0
Grand Total	18	Grand Total	7	Grand Total	

Source: Global Trade Atlas.

Note: \* Only for the period of Jan-Jul 2017.