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Indonesia

Grain and Feed Annual

Indonesia Grain and Feed Annual Report 2017

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Report Highlights:
Feed-grade wheat import restrictions are driving down wheat imports, with MY 2016/17 estimated lower at 9 MMT and 2017/18 at 9.45 MMT. Farmers are planting more corn following an import ban and strong prices. Assuming normal weather, Post forecasts MY 2017/18 corn harvested area to continue to increase to 3.45 million hectares. MY 2016/17 and MY 2017/18 Indonesian corn imports are estimated to decline to 500,000 MT due to import restrictions. Post increases MY 2016/17 rice production estimate to 37.15 MMT (milled rice equivalent) due to increased area harvested. The GOI is not expected to authorize BULOG to import rice through the remainder of MY 2016/17. Post therefore expects MY2016/17 Indonesian rice imports to decline to 500,000 MT.

SECTION I. SITUATION AND OUTLOOK

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika, BMKG*) on March 7, 2017 reported that:

1. Indonesia was hit by a strong La Nina in 1998, a strong El Nino in 2015, and a weak to moderate La Nina in 2016. Based on the observation in early March 2017, the sea surface temperature (SST) level, El Nino Southern Oscillation Index (ENSO), and the Indian Ocean Dipole Index (IOD) are predicted to be neutral with the probability of a weak El Nino to occur in June, July, and August 2017.

2. The onset of dry season will take place in May, June, or July 2017 with the peak of the dry season to happen during the period of July through September 2017.

3. BMKG predicts that the onset of Indonesia's dry season may arrive later than normal with a 39.9 percent probability, during normal time (37.3 percent), and earlier than normal (22.8 percent).

Should a weak El Nino occur during the third crop cycle, Indonesian farmers may choose to plant corn instead of paddy, thus increasing MY 2016/17 corn production, as was the case in MY2003/04 and MY 2005/06. Indonesia is implementing a program to bring new land into rice production. In the first crop cycle of MY 2016/17, the Ministry of Agriculture reports 5000 hectares of new land planted in Riau, 2000 hectares in South Sumatera, and 7500 hectares in West Kalimantan. No significant pest and disease incidents were reported during the first crop cycle of MY 2016/17.

Chart 1. 2016/17 Indonesian Rainy Season Onset Forecast

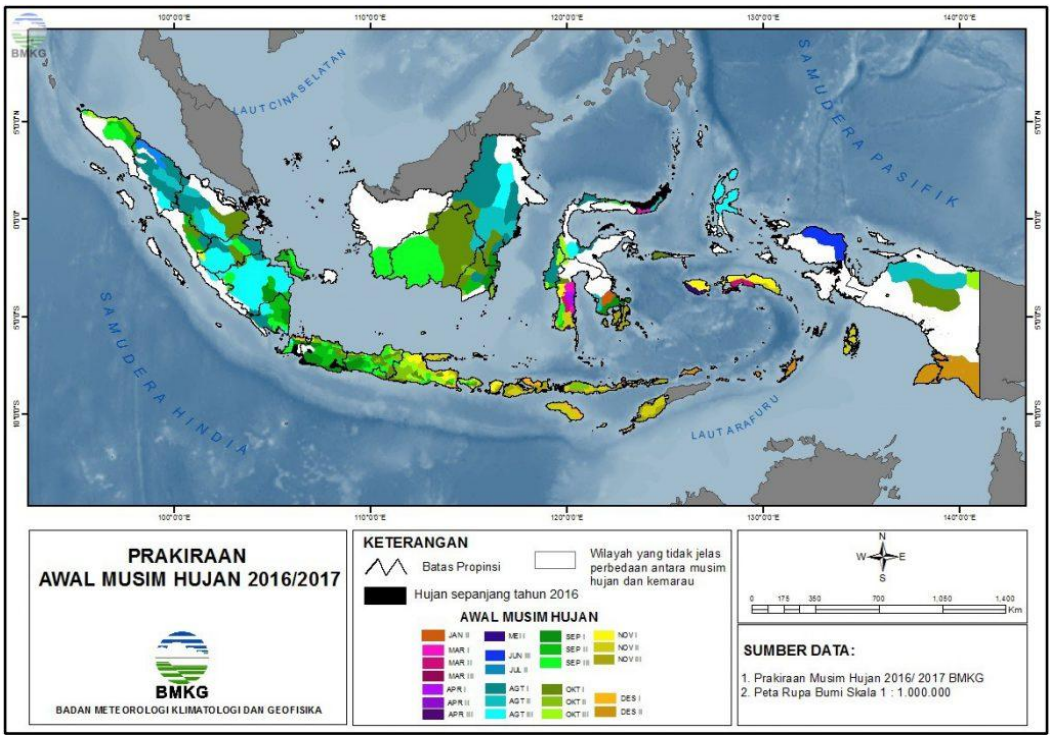
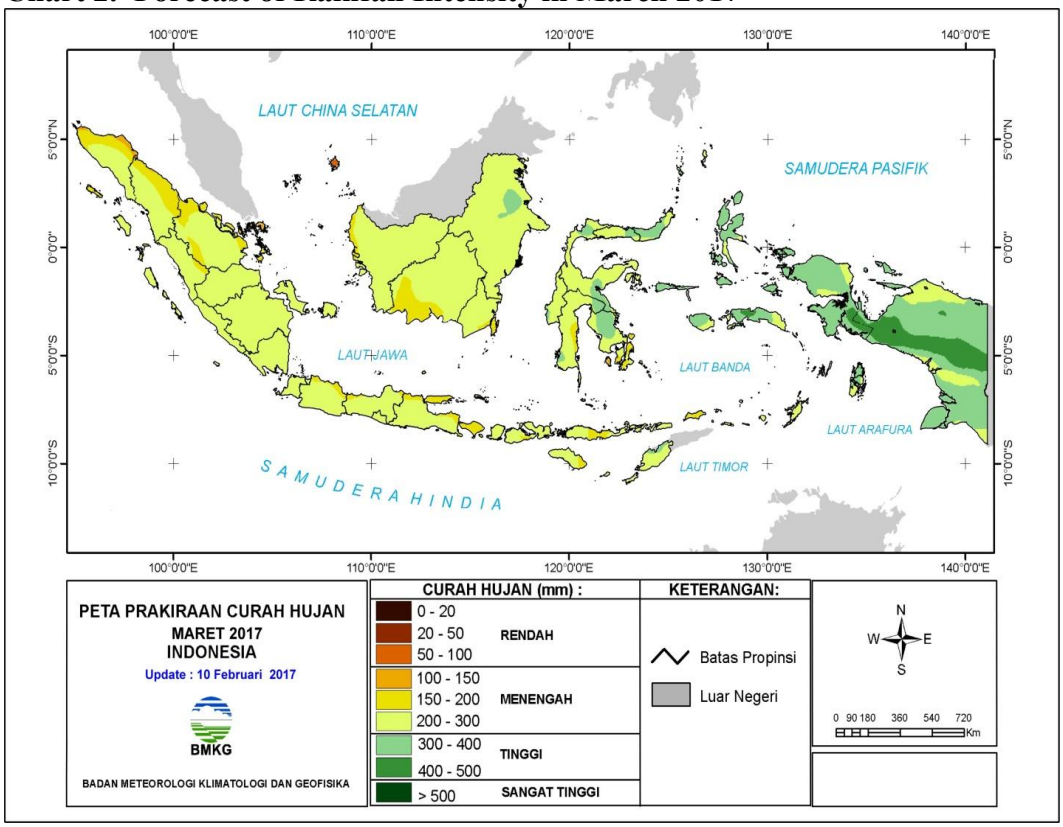
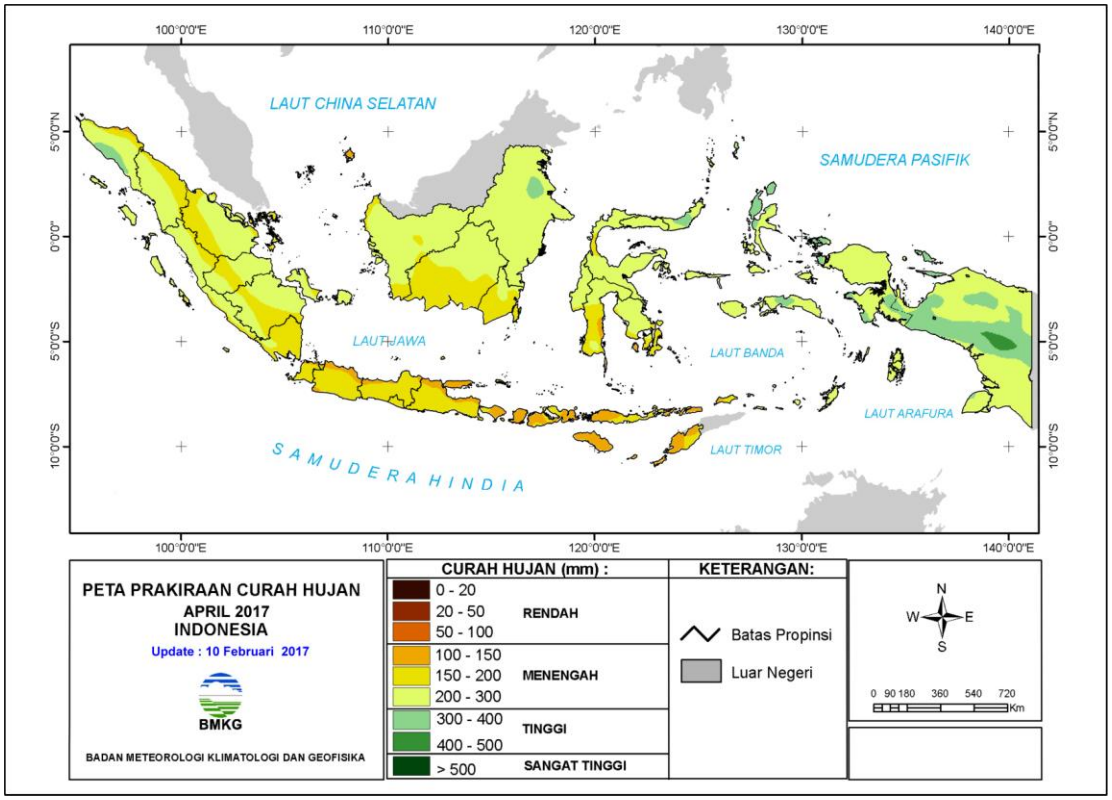


Chart 2. Forecast of Rainfall Intensity in March 2017



Source: BMKG

Chart 3. Forecast of Rainfall Intensity in April 2017



Source: BMKG

Indonesia is divided into 90 River Area Units (*Satuan Wilayah Sungai*, SWS) consisting of 5,000 river basin areas (*Daerah Aliran Sungai*, DAS). Water Resources Law No. 7/2004 states that the primary objective for Indonesia's water conservation policies is to ensure enough water for agriculture. The GOI and provincial governments are responsible for primary and secondary irrigation development, while farmer groups are responsible for tertiary irrigation development and improvement. According to the Indonesian Ministry of Public Works (MPW), approximately 84 percent of Indonesian rice area was irrigated, while the remaining 16 percent was rain fed.

The following table shows water levels at West Java as of March 21, 2016:

Table 1. Water Elevation at West Java Water Reservoirs, March 13, 2017.

No.	Reservoir	Elevation & Volume				Elevation Deviation	Vol. Deviation	Drought Prep. Elev.	Status
		Target		Observed					
		Elev. (m)	Vol. (mil.m^3)	Elev. (m)	Vol. (mil. m^3)	(m)	(mil.m^3)	(m)	
1.	Jatiluhur	93.73	360.62	105.34	n/a	11.61	n/a	87.50	Normal
2.	Cirata	209.52	160.87	218.10	n/a	8.58	n/a	206.00	Normal
3.	Saguling	631.50	138.97	641.18	n/a	9.68	n/a	625.00	Normal

Source: Indonesian Min. of Public Works, Perum Jasa Tirta II (March 14, 2017), processed by FAS/Jakarta.
Note: "Deficit" indicates water levels lower than target, but above drought condition levels

Wheat

Post maintains its MY2016/17 Indonesian wheat import estimate at 9.0 MMT, which is low compared to MY 2015/16 imports of 10.116 MMT. The decline is due to feed-grade wheat import restrictions put in place in 2016. Post estimates MY 2017/18 Indonesian wheat imports to reach 9.45 MMT, in line with the expected wheat flour demand increase by food industry. The U.S. share of wheat exports to Indonesia is thus increased to 940,000 MT in MY 2017/18.

Corn

Seed companies report that MY 2015/16 corn planting is lower than expected under Indonesia's seed assistance project. Post thus revises its harvested area estimate to 3.3 million hectares. Post's production estimate is nonetheless unchanged due to yield gains from better quality seed. Post estimates MY 2016/17 harvested area to increase to 3.4 million hectares due favorable weather that may prompt farmers in upland rain-fed areas to grow corn in the place of soybean, sugar, or tobacco. Price incentives are driving farmers, especially farmers in Sumatera's major corn producing areas, to switch from cassava, rubber, and palm oil to corn. Assuming normal weather, Post forecasts MY 2017/18 corn harvested area to continue to increase to 3.45 million hectares. MY 2016/17 and MY 2017/18 Indonesian corn imports are estimated to decline to 500,000 MT due to continued corn import restrictions imposed by the government.

Rice

The 2015/16 weak La Nina event supports Post's MY 2015/16 and MY 2016/17 rice production estimates. The additional rain boosted paddy production in rain-fed areas during the MY 2015/16 third crop cycle as well as MY2016/17 first crop cycle. Post revised the estimate of MY 2016/17 harvested area to 12.24 million hectares from the previous estimate of 12.16 million hectares due to increased cropping intensity on irrigated area and additional new land outside of Java. Rice import estimates are expected to decline. Post notes that the National Logistics Agency (BULOG) is optimistic that they will meet their MY 2016/17 rice procurement target. The GOI is therefore not expected to authorize BULOG to import rice through the remainder of MY 2016/17. Based on these considerations, Post expects MY2016/17 Indonesian rice imports to decline to 500,000 MT compared to the initial estimate of 1.25 MMT. The majority of rice imports is expected to be specialty rice imported by the private sector.

WHEAT

Production

Indonesia does not produce wheat and is fully reliant on wheat imports to fulfill its demand for wheat flour-based foods.

Trade

The Indonesian Flour Mills Association (*APTINDO, Asosiasi Produsen Tepung Terigu Indonesia*) reported that during the period of 1970 to 1998 there were only five flour mills belonging to four companies in the country. Currently there are 31 operational flour mills with a total installed capacity of 11.4 MMT, an increase from 10.3 MMT in MY2014/15. Most of the mills are located on Java. Running

capacity of the mills reached 70 percent in MY 2015/16. Bogasari, Indonesia's largest flour mill (with a 52-percent share of the wheat flour market) is currently running at 85 percent capacity and is updating three flour mills located in Jakarta. Additional flour mills on Java are also expanding operations. The industry is expected to grow by five percent in MY 2016/17 due to the price competitiveness of wheat flour-based foods compared to rice and other staple foods. APTINDO further projected that the total installed capacity of Indonesian flour mills will reach approximately 14.2 MMT by MY2024/25.

Flour production costs have increased as Indonesian electricity and labor rates have risen. This is exacerbated by the weak Indonesian rupiah, (valued at an average of Rp. 13,276/$1 in March 2016 and Rp. 13,393/$1 in March 2017). Exchange rates have been somewhat offset by abundant wheat supplies in the international market. As a result, the Indonesian Ministry of Trade's Market Information Center reports that the retail price of Segi Tiga Biru flour has slightly declined from Rp. 8,200/kg ($612/MT) to Rp. 8,185/kg ($611 /MT). The wholesale price of Segi Tiga Biru flour was Rp. 6,400/kg ($478 /MT) in March 2017.

The Indonesian Ministry of Agriculture (MOA) has targeted zero corn imports for MY 2016/17, and is encouraging mills to use local corn to meet feed milling needs. Additionally, importers report that MOA will not issue import recommendations for corn substitutes such as feed grade wheat, barley, or sorghum. Given these conditions, and despite low wheat prices, Post expects a significant decline in feed grade wheat imports during MY 2016/17. Based on the aforementioned factors, Post estimates that Indonesia's MY 2016/17 wheat imports will decrease to 9.0 MMT mainly consisting of wheat imports for flour mills, compared to MY 2015/16 imports at 10.116 MMT. Indonesian imports of wheat are forecast to rebound to 9.45 MMT in MY2017/18 due to growth demand from the food industry.

Wheat exports to Indonesia during the first semester of MY2016/17 were led by Australia (33.64 percent), Ukraine (30.74 percent), Canada (18.55 percent), and the United States (8.66 percent). Australia's majority market share is due to the noodle industry's preference for Australian standard white wheat, price, and Australia's close proximity. Based on these factors, U.S. wheat exports to Indonesia in MY 2016/17 are estimated to reach 900,000 MT.

Importers note that during the first semester of MY2016/17 Indonesian wheat flour imports declined by 38 percent to 52,085 MT of wheat equivalent, compared to 71,877 MT of wheat equivalent imported during the same period of MY2015/16. The decline is mainly due to the continued weakness of rupiah against the U.S. dollar. Domestic flour dominated the market throughout calendar year (CY) 2016, with a 98.9 percent market share. According to Global Trade Atlas data, Turkey held the largest market share of wheat flour exports to Indonesia (63 percent), followed by The Philippines (20 percent), and South Korea (5 percent) during the July - December 2016 period.

Consumption

About 70 percent of Indonesian flour mill customers are small and medium sized wheat-food producers. These include small scale wet noodle makers, street food vendors, low end bread and bakery businesses, and traditional Indonesian cake makers. Instant noodle manufacturers, middle and upper end bakeries, and cookie and biscuit manufacturers take the other 34 percent of the market. According to the National Statistical Agency (BPS), there were approximately 5,700 large and medium-sized food production

companies with 765,000 employees and 1.61 million micro and small scale food production companies with 3.75 million employees in 2015.

BPS reports that Indonesia's annual per capita wheat flour consumption reached 23 kg in MY 2015/16. Relatively stable macro-economic conditions have allowed middle and upper-middle income consumers to diversify their diets to include more western-style foods like bread and pasta. Rather than eat rice three times daily, many Indonesians have switched to bread or noodles for breakfast. Restaurants are also driving demand for wheat-based food products. Contrary to the depressed growth of small and medium scale bakeries, the number of high-end bakeries is growing, mainly in major cities including Jakarta, Surabaya, Medan, and Bandung. Instant noodle prices are currently cheaper than rice, and many more lower and middle income consumers substitute instant noodles for breakfast or dinner. Relatively stable prices of wheat flour and packaging, product innovations, and only marginal price increases for domestic biscuit products prices have the driven biscuit industry to grow by 9 percent in MY2015/16. The Indonesian biscuit industry is competitive, thus limiting market entry of foreign brands to high end and niche market products. Biscuit industry sources thus optimistically report that production will continue to grow by 10 percent in MY2016/17. The noodle industry continues to grow rapidly, consuming 70 percent of Indonesia's wheat flour. Bakery industry consumption follows with 20 percent of flour, while household and commercial biscuit producers each consume 10 percent, respectively.
Given these factors, Post estimates the MY 2016/17 Indonesian wheat consumption will increase to 8.2 MMT. Human consumption of wheat flour in MY 2017/18 is forecast to further increase to 8.6 MMT, based on population and economic growth.

Despite the discontinuation of feed wheat import recommendations, some feed wheat imports arrived in the second half of 2016. MY 2016/17 feed wheat consumption is expected to decline to 700,000 MT compared to 1.6 MMT in MY2015/16, due to import restrictions. Assuming strict feed wheat import policies, MY 2017/18 feed wheat consumption is expected to decline to 250,000 MT.

CORN

Production

Indonesian farmers plant corn as a secondary crop after paddy. Indonesia's first corn season normally takes place between November and February (49 percent). The second season takes place from March to June (37 percent), while the third runs from July to September (14 percent). No significant pest and disease incidents were reported during the first corn crop cycle of MY 2015/16. With the arrival of La Nina weather during the second crop cycle of MY 2015/16 followed by normal weather to MY 2016/17 (as explained above) farmers on lowland and upland rain-fed areas were able to plant MY2016/17 first crop cycle on time.

Indonesia's MOA is continuing its food crops self-sufficiency effort by distributing free seeds to farmers in MY 2016/17. Farmers will receive 15 kg of hybrid corn seed per hectare or 25 kg of composite corn seed per hectare. The Ministry of Agriculture expects that Indonesian hybrid corn seed demand in 2017 will reach 45,000 MT compared to 40,000 MT in 2016. Multinational seed companies operational in Indonesia are optimistic that seed sales will increase by an average of ten percent in MY2016/17. Table 3 lists seed volume allocations under the GOI's free seeds programs:

Table 3. Volume Allocation (In Ha) to Increase Food Crop Production in 2016-2017

No.	Type of Seed	2016	2017
1.	Inbred Paddy	3,900,000	731,925
2.	Hybrid Paddy	150,000	60,000
3.	Composite Corn		400,000
4.	Hybrid Corn	2,500,000	2,600,000
5.	Soybean	50,000	210,000

Source: Ministry of Agriculture

In support of Indonesia's self-sufficiency goals, MOA issued regulation 56/2016 on "The Development of Agricultural Cluster Areas" on November 29, 2016. The regulation describes the GOI's production increase goals for food crops, horticulture, estate crops, and animal husbandry through the development of specified lands. In conjunction with this regulation, MOA also issued a regulation 830/2016 on December 19, 2016 that specifies which provincial districts will develop which commodity production.

MOA is continuing its partnership with the Indonesian Ministry of State-Owned Companies to allow farmers to grow food crops on public lands managed by the Perhutani company in 2017. MOA estimates that farmers will grow corn on a total of 551,540 hectares of Perhutani lands in MY 2016/17.

Farm gate corn prices are increasing in response to MOA's refusal to issue corn import permits as well as Indonesian Ministry of Trade (MOT) September 15, 2016 regulation 63/2016 which sets producer and consumer corn prices (see ID1628). Farm gate corn prices currently range between Rp. 3,300/kg ($246/MT) and Rp. 3,500/kg ($261/MT), compared to Rp. 3,100/kg ($231/MT) to Rp. 3,200/kg ($239/MT) in June 2016. Feed mill level corn prices have declined slightly in response to the ongoing main harvest, dropping from Rp. 4,000/kg ($299/MT) in early January 2017 to Rp. 3,900/kg ($291/MT) in March 2017.

Recent field observations in southern Sumatera revealed that high corn prices are driving some farmers to switch to corn during the first and second crops of MY 20167/17. Farmers reported that current cassava prices range between Rp. 300 – 500/kg ($22-37/MT), compared to Rp. 2,000/kg ($149/MT) in MY2015/16. (Note that cassava requires a nine month growing period, compared to corn or rice which can be harvested two or three times annually). Farmers in southern Sumatera are also switching to corn from palm oil or rubber due to higher revenues received from growing corn. Southern Sumatera produces approximately 10 percent of Indonesia's total corn production. Farmers on Java continue to take advantage of the increasing availability of Perhutani lands to expand production during the first and second crop cycles of MY2016/17.

Feed mills report that the first main harvest period of MY2016/17 started in early January 2017 and is remains ongoing through March. The MY2015/16 main harvest period started in January and finished in February 2016.

Based on the aforementioned factors, Post estimates MY 2016/17 corn harvested area will increase to 3.4 million hectares compared to 3.3 million hectares in MY 2015/16. Assuming favorable weather and continued government support, Post forecasts MY 2017/18 corn harvested area will further increase to 3.45 million hectares. Increasing use of downy mildew resistant and higher yielding hybrid corn seed,

combined with favorable weather, is expected to increase MY 2016/17 Indonesian corn production to 10.9 MMT. In line with the harvested area increase, Post expects MY 2017/18 Indonesian corn production to increase to 11.35 MMT.

Left and right: Farmers are switching from cassava or palm oil to corn during the MY 2016/17 first and second crop cycle in southern parts of Sumatera.

Left: Farmers are intercropping corn with other crops in South Sumatera. Right: Farmers are intecropping corn with dry land paddy in East Nusa Tenggara

Left: Farmers

abandoned cassava field in South Sumatera. Right: Intercropping corn and coconut in North Sulawesi

Consumption

The Indonesian feed mill sector, as on MY 2015/16, consists of 69 feed mills with a total installed capacity of 19.4 MMT. Approximately 49 mills are located on Java. The Indonesian Feed Producers Association (Asosiasi Produsen Pakan Indonesia, APPI) has committed to prioritize domestic corn purchases over imports in support of MOA's corn self- sufficiency goals. Corn accounts for 50 percent of feed formulations and 35 percent of poultry feed production costs. APPI notes that expensive domestic corn prices cannot be passed on to consumers, thus reducing feed mills' margins. This, combined with the general economic slowdown categorized by the weak rupiah vis-à-vis the dollar, is expected to continue to slow commercial poultry feed consumption growth. APPI estimates that Indonesian feed consumption will increase by 5 percent to 17.0 MMT in MY2016/17.

The poultry industry consumes approximately 83 percent of Indonesia's animal feed. Aquaculture consumes 11 percent and the remaining six percent is consumed by cattle and swine. The Indonesian poultry industry reports that the MY2016/17 poultry population is expected to reach 3.5 billion broilers, 200 million layers, and 24.8 million breeders. Demand for aquaculture feed in MY 2016/17 is estimated to increase by 10 percent, slower growth than the 13 percent growth in MY2015/16. Slower growth is due to diseases affecting shrimp production. Due to the continued expansion of existing mills, there is an additional 1.5 MMT installed capacity, raising total installed capacity of Indonesian feed mills to 21 MMT per annum. Millers report that Indonesian mills are running at 70 – 80 percent capacity.

MOA restricts imports of corn and corn substitutes. As a result, feed mills are expanding storage capacity in order to optimize local production and maintain stable supplies. Post estimates MY 2016/17 and MY 2017/18 Indonesian feed corn consumption will increase to 8.4 MMT and 8.5 MMT respectively, in line with the estimated increase of feed production. The Indonesian National Economic Survey reports that corn for human consumption is decreasing by 6.33 percent per annum, leading Post to estimate corn for human consumption at 3.8 MMT in MY 2016/17. Post forecasts that corn for human consumption will continue to decline to 3.6 MMT in MY 2017/18 as consumers substitute rice and wheat-based food products.

Trade

Indonesia's corn demand exceeds domestic supply, with corn constituting about 80 percent of Indonesian feed energy sources. Domestic production, while increasing, faces challenges due to inconsistent seasonal supplies and poor post-harvest management (resulting in high moisture content and high aflatoxin levels). Strong demand for domestic supplies has brought MY2016/17 Indonesian corn exports down to 5,000 MT compared to 20,000 MT in MY2015/16. Post expects MY2017/18 Indonesian corn exports to remain on par at 5,000 MT, for the same reasons.

On March 24, 2016 the Indonesian Minister of Trade issued regulation 20/2016 on Corn Imports. The regulation stated that corn can be imported to fulfill food, feed, and industrial raw material demand, and that this demand will be determined through an Inter-ministerial coordination meeting. Regulation 20/2016 also appointed state-owned trading company BULOG as the sole importer of feed corn, while any private company holding a general importer identification number (*API-U, Angka Pengenal*

Importir Umum) or producer importer identification number (*API-P, Angka Pengenal Importir Produser*) can import corn for food or industrial raw materials. In order to import, BULOG must obtain import approval from the Ministry of Trade and an import recommendation from MOA. Before importing corn, private companies must also obtain import approval from the Ministry of Trade. MOT will issue import approvals at the beginning of each quarter. Import approvals for BULOG will be valid in accordance with the import recommendation stipulation date. Import approval for private companies will be valid for a period of three months commencing from the date of the import approval issuance.

In October 2016, MOT issued a Letter of Import Approval (SPI) to BULOG to import 200,000 MT of corn. BULOG targeted delivery of the full allocation no later than December 25, 2016. BULOG conducted a tender to procure the imported corn, requiring that any bidding company must be a member of the Grain and Feed Trader Association (GAFTA), thereby excluding feed mills. BULOG intends to distribute the corn primarily to micro, small, and medium enterprises (SMEs) and to maintain national stocks.

Despite growing feed mill capacity, the above mentioned restrictions are expected to impede import growth. Therefore, Post estimates MY 2016/17 corn imports down from 1.8 to 0.5 MMT. MY 2017/18 corn imports are forecast to remain unchanged at 0.5 MMT, reflecting Indonesia's slight forecasted production increase and continued corn import restrictions. According to Global Trade Atlas, Indonesian corn imports originated from the United States (79 percent) and Brazil (19 percent) during the period of October 2016 to January 2017.

RICE, MILLED

Production

The 2016/17 weak La Nina event supports Post's MY 2015/16 and MY 2016/17 rice production estimates, with additional rain boosting paddy production in rain-fed areas during the MY 2015/16 third crop cycle. MY 2016/17 first crop plantings were on-time, based on sufficient rainfall and irrigation. This contrasts with MY 2015/16 first paddy crop plantings, which were delayed due to the late (December) arrival of the rainy season that year. Post field observations in East Nusa Tenggara, Lampung, and South Sumatera confirmed that farmers in those areas planted the first crop in late October 2016. Typically, irrigated farms are planted to paddy during the first and second crop cycles (October – February and March – June), and followed by paddy or secondary crops such as corn, mung bean, soybean, peanut, or sweet potato during the third crop cycle (July – October).

With the normal start of the first crop cycle, the first main harvest is ongoing through March 2017. (Post notes that some areas that have finished the first main harvest and are moving on to the second crop cycle as well). The second paddy harvest is expected to take place in mid or late June and July 2017.

The cooperation between MOA and Perhutani to increase plantings on Perhutani land covers not only corn, but also paddy and soybean. During the MY 2015/16, Perhutani reported that a total of 15,364 hectares of Perhutani land scattered in West Java, Central Java, East Java, and Banten were planted with paddy. A total of 133,272 MT of paddy was harvested from those areas. Perhutani is expected to continue the program on those areas during MY2016/17. MOA reports a total of 5,000 hectares of new land in Riau, 2,000 hectares in South Sumatera, and 7,500 hectares in West Kalimantan were planted with paddy for the MY 2016/17 first crop cycle. MOA targets to open 80,000 hectares for paddy in MY 2016/17. No significant pest and disease incidents were reported during the first crop cycle of MY2016/17.

Left and right picture: East Nusa Tenggara and South Sumatera paddy planting, early March 2017

Post revises the MY2016/17 harvested area estimate to 12.24 million hectares compared to the previous estimate of 12.16 million hectares, based on GOI programs to increase production areas. However, with the possibility of a weak El Nino in late MY2016/17 may decrease plantings in rain-fed areas. Post therefore forecasts MY2017/18 harvested area will contract to 12.20 million hectares as an El Nino may delay the first crop cycle on rain-fed areas, reducing paddy area during the third crop cycle. Post also revises its MY 2016/17 rice production estimate to 37.15 MMT of milled rice equivalent, compared to the previous estimate of 36.6 MMT of milled rice equivalent. Increasing use of high yielding varieties such as Ciherang, Inpari 13, Sinta Nur, and Mekongga by farmers on both Java and outside of Java is improving yields. Therefore, Post forecasts MY2017/18 Indonesian rice production to grow to 37.4 MMT of milled rice equivalent.

Trade

BULOG has set its procurement target at 3.7 MMT of milled rice equivalent for MY 2016/17. BULOG normally meets 60 percent of its procurement target during the first main harvest period (before June). At the end of MY 2015/16 BULOG domestic procurement totaled 2.96 MMT. This is higher than the 1.97 MMT procured during the same period of MY2014/15.

On February 17, 2016, the GOI decided to maintain the government purchasing price (*Harga Pembelian Pemerintah, HPP*) for paddy and rice at the same level as stated in Presidential Instruction No. 5/2015, stipulated on March 17, 2015. BULOG can only buy paddy or rice from farmers when the market price

is lower than or equal to the HPP. According to presidential instructions, BULOG can buy paddy or rice that meets the criteria and HPP listed in Table 4:

Table 4. Indonesia: Government Purchasing Price for Paddy and Rice 2012-Present

		Inpres 2012			Inpres 2015		
Quality Requirement		Wet Paddy	Dry Paddy	Rice	Wet Paddy	Dry Paddy	Rice
Moisture Content	Max	25%	14%	14%	25%	14%	14%
Empty Husks/Dirt	Max	10%	3%	-	10%	3%	-
Broken	Max	-	-	20%	-	-	20%
Price at farmer's level		Rp. 3,300	-	-	Rp. 3,700	-	-
Price at mill's level		Rp. 3,350	Rp. 4,150	-	Rp. 3,750	Rp. 4,600	-
Price at Bulog warehouse		-	Rp. 4,200	Rp. 6,600	-	Rp. 4,650	Rp. 7,300

Source: Presidential Instruction No. 5/2015

Despite the current price for medium quality paddy and rice which is mostly above the government purchasing price, BULOG is optimistic that it will meet its MY2016/17 domestic procurement target. BULOG's optimism is supported by the issuance of Ministry of Agriculture regulation no. 3/2017 which allows BULOG to buy lower or higher quality paddy or rice above the government purchasing price between March 2 and August 27, 2017.

Table 5. BULOG's Buying Prices for Premium Quality Rice at BULOG's Warehouse

No.	Quality	Criteria (%)				
		Milling rate	Moisture Content (Max)	Broken Grains (Max)	Grain Groats (Max)	Price (Rp./Kg)
1.	Premium Plus I	100	14	10	1	8,845
2.	Premium Plus II	100	14	15	1	8,835
3.	Premium Plus III	100	14	20	1	8,590
4.	Premium I	95	14	10	2	7,700
5.	Premium II	95	14	15	2	7,500
6.	Lower Quality	95	14	25	2	7,150

On February 24, 2017, the GOI issued Presidential Decree No. 20/2017, moving BULOG's authority on issues related to the procurement, import, management of government stocks, and government purchasing prices of paddy and rice to the Ministry of Agriculture. BULOG will continue its role as the

implementer of these programs, but all decisions will be taken by MOA. The regulation will expedite Indonesia's ability to implement rice programs by removing the requirement that BULOG activities pass via an interministerial coordination meeting. However, this will likely result in limited MY 2016/17 rice imports, as MOA is expected to aggressively pursue rice self-sufficiency policies. MOA's new authority will be valid for six months following the implementation date in February, covering the critical domestic procurement period during the first and second harvests. BULOG normally meets 60 percent of procurement targets by June of each year. As of March 14, 2017, BULOG has domestically procured a total of 190,000 MT of milled rice equivalent, above the 172,784 MT of milled rice equivalent procured by the end of March 2016.

BULOG is required to maintain a minimum year end stock level of 2 MMT. Indonesian regulations restrict rice imports one month prior to, during, and two months after the main harvest period. Indonesian regulation no. 103/2015 only permits BULOG to import medium quality rice with a maximum 25 percent broken grains. Private companies can import specialty rice (jasmine rice, basmati rice, sushi rice, rice for diabetics and rice seed, for example). The purpose of medium quality rice imports by BULOG is to maintain rice price stability, to overcome post disaster circumstances, and for distributions to the poor and food-insecure. According to the regulation, the GOI may decide to authorize BULOG to import medium quality rice after considering BULOG stock levels, disparity between average rice prices and the government purchasing price, and the national rice surplus estimate. Private sector importers holding a producer importer identification number can import specialty rice once an import approval from the Ministry of Trade is obtained. The import permit is valid for six months in the current year. During MY2015/16 Indonesia imports rice from Vietnam (56 percent), Thailand (37 percent), Pakistan (5 percent), and Myanmar (2 percent).

Indonesian regulations state that only BULOG can export rice with a maximum of 25 percent broken, while state own companies, provincial owned companies, and private sector exporters can export rice with a maximum of 5 percent broken. According to Global Trade Atlas, Indonesia exported rice to South Africa (78 percent), Singapore (6 percent), and the United States (3 percent) in MY 2015/16. BULOG reported exports of 5,000 MT of medium quality rice to Sri Lanka in February 2017 as food aid. MOA targets 100,000 MT of medium quality rice exports to bordering countries in MY 2016/17, which will mainly be produced areas bordering Malaysia or Papua New Guinea. Post notes that increasing border area exports is in the planning phase, and that actual production in these areas remains minimal.

Considering the abovementioned situation, combined with estimated higher rice production, Post estimates that MY 2016/17 imports will decrease to 500,000 MT from the previous estimate of 1.25 MMT. Imports will mainly consist of specialty rice. Post forecasts that MY 2017/18 Indonesian rice imports will remain on par at 500,000 MT due to the same reasons.

Consumption

In MY 2015/16, BULOG distributed a total of 2.78 MMT of milled rice to 15.5 million families under the rice for the poor (*raskin*) program. In MY 2016/17 GOI modified the *raskin* program, changing the name to "Rice for the Prosperous (*beras sejahtera, rastra*)". The program is now broken into two parts: the regular *rastra* distribution as well as the not intuitively named *non-cash food aid program (Bantuan Pangan Non Tunai, BPNT)*, which distributes cash cards for participants to redeem rice and sugar on the

open market. BULOG will continue to implement both programs. In MY 2016/17 BULOG will distribute *rastra* to a total of 14.4 million families, while another 1.1 million families (formerly *raskin* recipients) will receive the non-cash food aid (BPNT) card. Every family under the regular *rastra* program will receive 15 kg of rice at the price of Rp. 1,600/kg ($119/MT) per month. Under BPNT, the GOI will deposit Rp. 110,000 ($8.20) onto each card. The card recipients who reside in 44 pilot project cities can swipe the card at selected stores for a total of 10 kg of rice and 2 kg of sugar. The GOI is considering increasing the value of the card in the future so that each recipient can purchase a wider variety of staple goods.

Data from the 2013 Indonesian National Economic Survey (Susenas) shows an average decline in per capita rice consumption of 1.62 percent per annum. The decline in rice consumption is partly offset by the increasing consumption of wheat flour-based foods such as instant noodle and bread. The price of a pack of instant noodle is approximately Rp. 2,000/pack ($0.15/pack), compared to Rp. 8,000 – 12,500/kg ($0.60 - $0.93/kg) for rice. Relatively stable macro-economic conditions have allowed middle and upper-middle income consumers to diversify their diets to include more western-style foods like bread and pasta. Rather than eating rice three times a day, many Indonesians have switched to eating bread or noodles for breakfast. Restaurants are also driving demand for wheat-based food products. Post therefore estimates that MY 2016/17 Indonesian rice consumption will decline to 37.6 MMT of milled rice equivalent, compared to the 37.8 MMT of milled rice equivalent in MY 2015/16. Post expects Indonesian rice consumption to remain unchanged at 37.6 MMT in MY 2017/18 as the decline in per capita consumption is offset by population growth.

Stocks

Post estimates MY 2016/17 rice ending stocks to slightly increase to 3.554 MMT, tracking with rice production increases and import declines. MY 2017/18 ending stocks are expected to further increase to 3.859 MMT in line with the expected production increase.

Prices

The price of wet paddy and rice remains above the government's purchasing price, despite the ongoing harvest. Current farm gate prices of wet paddy in Java range from Rp. 4,100/kg ($306/MT) to 7,500/kg ($560/MT). The average price of medium quality rice at the Cipinang wholesale market has declined from Rp. 10,000/kg ($747/MT) on November 29, 2016 to Rp. 9,600/kg ($717/MT) on March 29, 2017.

PSD TABLES

Table 1. PSD: WHEAT

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1316	1316	2057	2057	0	1907
Production	0	0	0	0	0	0
MY Imports	10116	10116	9000	9000	0	9450
TY Imports	10116	10116	9000	9000	0	9450
TY Imp. from U.S.	799	799	0	900	0	940
Total Supply	11432	11432	11057	11057	0	11357

MY Exports	275	275	300	250	0	250
TY Exports	275	275	300	250	0	250
Feed and Residual	1600	1600	1200	700	0	250
FSI Consumption	7500	7500	8100	8200	0	8600
Total Consumption	9100	9100	9300	8900	0	8850
Ending Stocks	2057	2057	1457	1907	0	2257
Total Distribution	11432	11432	11057	11057	0	11357
(1000 HA) ,(1000 MT)						

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 2. PSD: CORN

Corn	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3500	3300	3450	3400	0	3500
Beginning Stocks	1666	1666	1824	1824	0	1019
Production	10500	10500	10200	10900	0	11350
MY Imports	1778	1778	1000	500	0	500
TY Imports	1778	1778	1000	500	0	500
TY Imp. from U.S.	185	185	0	380	0	180
Total Supply	13944	13944	13024	13224	0	12869
MY Exports	20	20	20	5	0	5
TY Exports	20	20	20	5	0	5
Feed and Residual	8000	8000	8300	8400	0	8500
FSI Consumption	4100	4100	4000	3800	0	3600
Total Consumption	12100	12100	12300	12200	0	12100
Ending Stocks	1824	1824	704	1019	0	764
Total Distribution	13944	13944	13024	13224	0	12869
(1000 HA) ,(1000 MT)						

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 3. PSD: RICE, MILLED

Rice, Milled	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12100	12100	12160	12240	0	12200
Beginning Stocks	4111	4111	3511	3509	0	3554
Milled Production	36200	36200	36600	37150	0	37400
Rough Production	57008	57008	57638	58504	0	58898
Milling Rate (.9999)	6350	6350	6350	6350	0	6350
MY Imports	1000	1000	800	500	0	500
TY Imports	1000	1000	800	500	0	500
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	41311	41311	40911	41159	0	41454
MY Exports	0	2	0	5	0	0
TY Exports	0	2	0	5	0	0
Consumption and Residual	37800	37800	37300	37600	0	37600
Ending Stocks	3511	3509	3611	3554	0	3854
Total Distribution	41311	41311	40911	41159	0	41454
(1000 HA) ,(1000 MT)						

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 4 . Harmonized Tariff Nomenclature

No.	HS Code	Description	Import Duty	
			New	Old
1.	1001	Wheat and Meslin		
		- Durum wheat		
2.	1001.11.00	-- Seed	0.0	0.0
3.	1001.19.00	-- Other	0.0	0.0
		- Other		
4.	1001.91.00	-- Seed	0.0	0.0
5.	1001.99	-- Other		
		---Fit for human consumption		
6.	1001.99.11	---- Meslin	5.0	5.0
7.	1001.99.12	---- Wheat grain without husk	0.0	0.0
8.	1001.99.19	---- Other	0.0	0.0
		--- Other		
9.	1001.99.91	----Meslin	5.0	5.0
10.	1001.99.99	---- Other	5.0	5.0
	1005	Maize		

11.	1005.10.00	- Seed	0.0	0.0
	1005.90	- Other		
12.	1005.90.10	-- Popcorn	5.0	5.0
13.	1005.90.90	--Other	5.0	5.0
	1006	Rice		
	1006.10	- Rice in the husk		
14.	1006.10.10	-- Suitable for sowing	Rp. 450/kg	Rp. 450/kg
	1006.10.90	-- Other		
	1006.20	- Husked (brown) rice		
15.	1006.20.10	-- Thai Hom Mali	Rp. 450/kg	Rp. 450/kg
16.	1006.20.90	-- Other	Rp. 450/kg	Rp. 450/kg
	1006.30	- Semi-milled or wholly milled rice, whether or not polished or glazed:		
17.	1006.30.30	--Glutinuous rice	Rp. 450/kg	Rp. 450/kg
18.	1006.30.40	-- Thai Hom Mali	Rp. 450/kg	Rp. 450/kg
		-- Other		
19.	1006.30.91	--- Parboiled rice	Rp. 450/kg	Rp. 450/kg
20.	1006.30.99	--- Other	Rp. 450/kg	Rp. 450/kg
	1006.40	- Broken rice		
21.	1006.40.10	-- Of a kind used for animal feed	Rp. 450/kg	Rp. 450/kg
22.	1006.40.90	-- Other	Rp. 450/kg	Rp. 450/kg
	1101	Wheat or meslin flour		
		- Wheat flour		
23.	1101.00.11	-- Fortified	10.0	5.0
24.	1101.00.19	-- Other	5.0	5.0
25.	1101.00.20	- Meslin Flour	5.0	5.0
	1103	Cereal, groats, meal, and pellets		
		- Groats and meals		
26.	1103.11.00	-- Of wheat	5.0	5.0
27.	1103.13.00	-- Of maize	5.0	5.0
	2303	Residues of starch manufacture and similar residues, beet pulp, bagasse, and other waste of sugar manufacture, brewing or distilling dregs and waste, whether or not in the form of pellets.		
28.	2303.30.00	- Brewing or distilling dregs and waste	5.0	5.0

Table 5. Rainfall Pattern at Selected Stations in Rice/Corn Producing Areas (in millimeters, except where stated)

JATIWANGI (WEST JAVA)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**

2013	251	449	439	283	157	217	196	20	26	0	138	550
2014	476	337	212	302	194	55	53	9	0	0	234	441
2015	429	378	262	19	98	0	1	0	1	0	98	193
2016	0	394	3	144	168	182	61	69	163	299	360	317
2017	608											
TEGAL (CENTRAL JAVA)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2013	458	103	229	82	263	301	159	3	0	5	128	310
2014	439	208	216	98	147	58	52	12	0	3	170	166
2015	404	388	225	0	72	0	11	48	0	2	14	130
2016	29	377	0	42	168	70	175	27	244	144	171	237
2017	396											
SURABAYA (EAST JAVA)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2013	366	286	464	310	197	246	110	1	0	3	107	360
2014	259	250	448	276	106	211	48	0	0	0	73	319
2015	465	438	480	2	182	0	2	19	0	0	50	91
2016	91	567	0	239	395	174	216	97	144	467	110	257
2017	402											
DENPASAR (BALI)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2013	664	158	118	67	121	189	103	6	1	10	190	438
2014	536	277	56	30	28	11	49	5	0	1	152	485
2015	316	178	287	2	57	2	0	0	0	0	32	124

2016	3	563	0	24	110	265	123	73	391	68	278	401
2017	297											
UJUNG PANDANG (SOUTH SULAWESI)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2013	1067	384	319	334	74	99	241	16	0	174	285	810
2014	842	258	201	271	152	48	28	13	0	0	117	768
2015	1039	522	339	39	65	144	0	0	0	0	138	103
2016	74	444	0	279	159	183	31	18	139	483	211	437
2017	549											
LAMPUNG												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2013	761	154	156	216	166	49	223	19	51	333	340	297
2014	177	306	373	235	79	35	129	119	0	72	266	279
2015	209	254	198	305	40	16	81	17	35	2	43	144
2016	304	369	235	199	170	100	96	47	0	106	227	148
2017	198											

Table 6. Exchange Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	13,846	13,395	13,276	13,204	13,615	13,180	13,094	13,300	12,998	13,051	13,563	13,436
2017	13,343	13,352	13,308									

Note: Exchange rate is Rp. 13,393/USD 1, as of March 10, 2017.