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Date: 4/15/2015

GAIN Report Number: ID1514

Indonesia

Sugar Annual

Indonesia Sugar Annual Report 2015

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Report Highlights:

Indonesia is expected to produce 27.1 million metric tons (MMT) of sugarcane in marketing year (MY) 2014/15, resulting in production of 2.1 MMT of plantation white sugar. Raw sugar imports are estimated to decrease to 2.95 MMT in MY 2014/15 due to trade restrictions intended to reduce the diversion of domestically produced refined sugar to retail markets.

Commodities:

Select

General Summary

Government of Indonesia (GOI) sugar policy divides the domestic sugar market into three categories: plantation white sugar for home consumption, raw sugar for domestic sugar refining, and refined sugar for the local food and beverage industry.

In MY 2014/15, Post expects Indonesia will produce 2.1 MMT of plantation white sugar, a decrease of 8.6 percent, compared 2.3 MMT in MY 2013/14. Indonesian raw sugar imports are expected to decline to 2.95 MMT in MY 2014/15. However, with several new refineries coming online, it is forecast that MY 2015/16 Indonesian raw sugar imports will rebound to 3.1 MMT. Refined/plantation white sugar imports in MY 2014/15 are estimated to decline to 100,000 MT of raw sugar equivalent. This estimate is based on the reported import realization by BULOG that is far below the authorized volume. Post expects MY 2015/16 Indonesian refined sugar imports will remain stagnant at 100,000 MT, in line with an expected increase in domestic plantation white sugar production. Refined sugar can only be imported by the food and beverage industry. In CY 2014, the GOI authorized imports for 70,668 MT of refined sugar. As of December 2014, a total of 50,957 MT of refined sugar has actually landed in the country.

Despite a decrease in domestic plantation white sugar production in MY 2014/15, retail prices of plantation white sugar in July 2014 declined to Rp. 11,900/kg (\$902/MT) compared to Rp. 12,600 (\$955/MT) in January 2014. The GOI responded by increasing the plantation white sugar floor price to Rp. 8,500/ kg (\$644/MT) in August 2014 (compared to Rp. 8,100/kg (\$614/MT) in the previous year). Despite the price increase, competition between refined sugar for retail and domestic plantation white sugar continued to depress retail prices of plantation white sugar.

Table 1. PSD: Sugarcane for Centrifugal

Sugar Cane for Centrifugal	2013/2014	2014/2015	2015/2016
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Market Begin Year Indonesia	May 2014		May 2015		May 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	460	420	460	420	0	410
Area Harvested	450	410	450	410	0	400
Production	33,700	28,700	33,700	27,100	0	28,000
Total Supply	33,700	28,700	33,700	27,100	0	28,000
Utilization for Sugar	33,700	28,700	33,700	27,100	0	28,000
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	33,700	28,700	33,700	27,100	0	28,000

1000 HA, 1000 MT

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

Table 2. PSD: Centrifugal Sugar

Sugar, Centrifugal Market Begin Year Indonesia	2013/2014		2014/2015		2015/2016	
	May 2013		May 2014		May 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	879	879	1,564	1,299	0	949
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,300	2,300	2,500	2,100	0	2,250
Total Sugar Production	2,300	2,300	2,500	2,100	0	2,250
Raw Imports	3,900	3,400	3,700	2,950	0	3,100
Refined Imp.(Raw Val)	185	170	100	100	0	100
Total Imports	4,085	3,570	3,800	3,050	0	3,200
Total Supply	7,264	6,749	7,864	6,449	0	6,399
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	5,700	5,450	5,900	5,500	0	5,550
Other Disappearance	0	0	0	0	0	0
Total Use	5,700	5,450	5,900	5,500	0	5,550
Ending Stocks	1,564	1,299	1,964	949	0	849
Total Distribution	7,264	6,749	7,864	6,449	0	6,399

1000 MT

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

Production

Indonesia produces plantation white sugar from sugarcane, primarily produced for direct human consumption. Indonesia also produces refined sugar from imported raw sugar, which is generally used for processing by the food and beverage industries. By Indonesian regulation, refined sugar produced from imported raw sugar is prohibited from distribution to retail markets for direct human consumption.

Table 3. Profile and Characteristics of Indonesian Sugar Industry

No.	Description	Sugar Cane Based	Raw Sugar Based
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1.	Number of companies	18	11
2.	Number of plants	63	11
3.	Processing capacity	245,900 TCD (Ton Cane Day) Avg. 3,900 TCD per mill	5.01 MMT of installed capacity 3.697 MMT of running capacity
4.	Raw material	Sugar cane from mills' own plantation and farmers	Imported raw sugar
5.	Number of processing day	Avg. 160 days per year	Avg. 320 days per annum
6.	Annual production potential	2.5-3.0 MMT	3-4 MMT
7.	Number of workers: - On farm - Off farm	28,350 27,427	None 4,833
8.	Number of farmers involved	1,328,250 farmers families	None
9.	Age of existing mills	1-184 years old	3-12 years old
10.	Climate influence to production	Strong	Almost none
11.	Overseeing agency	Ministry of Agriculture (GOI Reg. No. 17/1986)	Ministry of Industry (Law No. 5/1984)

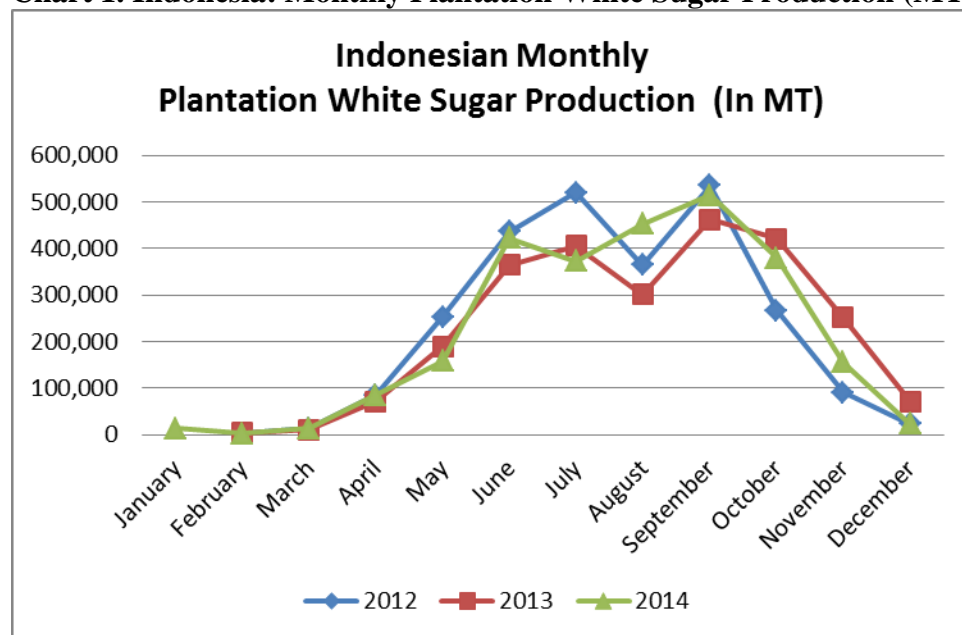
Source: Nusantara Sugar Community.

Java's 48 sugar mills accounted for 63 percent of Indonesian white sugar production in MY 2013/14. The balance is produced by 15 sugar mills outside of Java, primarily in Sumatra. These sugar mills produce plantation white sugar from sugar cane with a total running capacity of 245,900 Tons Cane Day (TCD) or an average of 3,900 TCD per mill. Indonesian sugar mills are aging, with approximately 40 mills over 100 years old. Only six sugar mills are less than 25 years old. Old machinery results in poor recovery rates and discourages farmers, who obtain higher margins from paddy or corn. Given these factors, Indonesian total sugar cane area, especially on Java, is declining. Post does not expect this trend to change significantly, despite government efforts to become self-sufficient in sugar by 2019 (a revision to the initial 2014 self-sufficiency target). Post notes that GOI plans include opening approximately 500,000 ha of land for sugar cane and building 10 new sugar mills, targeting eight-percent annual growth of plantation white sugar production. However, available land on Java is limited, and it is difficult to find fertile land suitable for growing sugar cane outside of Java.

The CY 2014 dry season was longer than normal and interspersed with sporadic rains, resulting in sugar cane flowering. Sugar mills report that farmers in major production areas had to harvest cane at 8 months instead of 12, resulting in a four percent average yield per acre decline, but a slightly higher recovery rate. Considering the above factors, Post estimates that MY 2014/15 Indonesian sugar cane harvested areas will remain stagnant at 410,000 hectares. MY 2014/15 Indonesian sugar cane production is estimated to decline to 27.1 million metric tons (MMT) compared to 28.7 MMT in MY 2013/14. Post estimates MY 2014/15 Indonesian plantation white sugar production to decline to 2.1 MMT, compared to 2.3 MMT in MY 2013/14.

The MY 2014/15 milling season started in North Sumatera in February 2014, followed by sugar mills in Lampung and in Gorontalo in April. Sugar mills on Java started operations in May 2014. In MY 2015/16, the milling period is expected to start in May 2015 and finish in November 2015. A shorter milling period will lead to a higher recovery rate, (7.9 percent in MY 2015/16 compared to 7.7 percent in MY 2014/15). The target rate may be hampered by poor recovery rate analysis, poor harvest management, sugarcane transportation problems, and the limited capacity of some mills older machines.

Chart 1. Indonesia: Monthly Plantation White Sugar Production (MT)



Source: Industry.

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) reported in January 2015 that the surface temperature of Indonesian seas was warmer with insignificant additional evaporation in northern Java, leading to a weak El Nino phenomenon in January 2015. From February to June 2015, BMKG forecasts that sea surface temperatures will be normal to warm with significant additional evaporation on Java and the surrounding areas. BMKG further forecasts that Indonesia will experience a weak El Nino from March through June 2015. Normally, the rainy season lasts from October to April, while the dry season takes up the remaining months. The Indonesian 2015 rainy season is still ongoing, with sufficient rainfall. Indonesian sugar mills may increase sugarcane production capacity by adopting new planting patterns, using higher yielding/late ripening varieties, and by better timing harvests to increase recovery rates. Considering the weather forecast, Post expects that MY 2015/16 Indonesian sugar cane production and plantation white sugar production will increase to 28 MMT and 2.25 MMT respectively. MY 2015/16 Indonesian sugar cane harvested areas are expected to decline to 400,000 hectares due to competition with other crops providing higher margins and land conversion to non-agricultural uses on Java.

Indonesian sugar refineries are growing. Three new players have entered the market, bringing the total number of refineries producing from imported raw sugar to 11, as of CY 2014. The 2014 combined output of these facilities was approximately 5.01 MMT, while operating at 70 to 75 percent of total

capacity. In CY 2015, two prominent agribusiness companies are expected to build two new sugar mills producing plantation white sugar from sugar cane and refined sugar from raw sugar. One new mill will be located in East Java while the other will be in West Nusa Tenggara. The two new mills are expected to have an initial install capacity of 8,000 TCD and 6,000 TCD. Robust growth of the Indonesian food and beverage industry will incentivize refineries to expand sugar production, although Presidential Regulation No. 36/2010 (Negative Investment List) requires new and expanding sugar refineries to create new sugarcane plantations in order to supply the new capacity. It also stated that any new sugar mill with an installed capacity of more than 8,000 MT of cane per day must also produce raw sugar. This regulation may curb the expansion of Indonesia's sugar industry.

Consumption

MY 2014/15 sugar consumption is estimated to marginally increase to 5.5 MMT based on 1.4 percent population growth and growing demand from the food and beverage industry. Post expects consumption will continue increasing to 5.55 MMT in MY 2015/2016. Direct human consumption is estimated at 2.9 MMT, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption in CY 2014 is estimated at 11.47 kg. Post revised MY 2013/14 Indonesian sugar consumption up to 5.45 MMT based on GOI and industry data.

Prices

The low recovery rate in MY 2014/15 for plantation white sugar incentivized the diversion of refined sugar from commercial users to the consumer market. As a result of ample refined sugar supplies in consumer-oriented markets, plantation white sugar auction prices declined.

Table 4. Indonesia: Auction Prices of Farmers' Plantation White Sugar, Rp/Kg.

Month	2010	2011	2012	2013	2014
January	7,290	8,098	8,150		
February	7,740	8,010	8,625		8,600
March	7,830	8,015	8,831		8,600
April	7,900	8,132	9,803		8,437
May	7,926	8,029	10,590	10,166	-
June	8,156	8,114	10,595	10,105	8,413

July	8,650	8,300	10,553	9,787	8,454
August	8,972	8,243	10,514	9,395	8,386
September	9,270	8,308	9,335	9,361	8,431
October	9,310	8,390	10,043	9,110	8,025
November	9,360	8,321	9,957	8,953	8,064
December	9,330	8,335	9,488	8,691	8,187
Average	8,478	8,191	9,707	9,446	8,360

Source: Industry.

On May 5, 2014, the Indonesian Minister of Trade announced that the floor price for plantation white sugar was increased to Rp. 8,250/kg (\$625/MT), based on a recommendation from the head of the Indonesian Sugar Council (who is also the Minister of Agriculture). Considering the continued depression of sugar auction prices may dissuade farmers from growing sugar cane, the Indonesian Minister of Trade further increased the floor price for plantation white sugar to Rp. 8,500/kg (\$644/MT) on August 7, 2014. However, competition with higher-quality refined sugar, (supposedly prohibited from retail sale), prevents the floor price increase from supporting plantation white sugar retail prices.

Table 5. Indonesia: Jakarta Monthly Average Retail White Sugar Prices (Rp./Kg)

Month	2012		2013		2014		2015	
	Local	Imported	Local	Imported	Local	Imported	Local	Imported
January	10,650	10,500	13,200	13,000	12,600	13,000	11,850	-
February	10,700	10,500	12,733	13,000	12,350	13,000	11,800	-
March	10,925	10,875	12,975	13,000	12,400	13,000		
April	11,825	11,313	12,500	13,000	12,100	-		
May	12,175	12,625	12,650	13,000	11,900	-		
June	12,375	13,000	12,700	13,000	11,950	-		
July	13,000	13,125	12,700	13,000	11,900	-		
August	13,060	13,500	12,733	13,000	11,950	-		
September	13,125	13,375	12,625	13,000	11,700	-		
October	12,950	13,000	12,400	13,000	11,600	-		
November	13,200	13,000	12,600	13,000	11,750	-		
December	13,200	13,000	12,400	13,000	11,800	-		
Average	12,265	12,318	12,685	13,000	12,000	13,000	11,825	-

Source: Market Information Center (PIP), Ministry of Trade.

Stocks

Due to the decline of plantation white sugar production and raw sugar as well as refined sugar imports, MY 2014/15 ending stocks are expected to decrease to 1.029 MMT, compared to 1.349 MMT in MY 2013/14. Despite the slight increase in plantation white sugar production and raw sugar imports, Post expects MY 2015/16 Indonesian sugar ending stocks to further decrease to 979,000 MT.

Trade

As a regulated commodity, plantation white sugar can only be imported by registered importers. Registered importers must also be sugar producers and are required to produce at least 75 percent of their white sugar from Indonesian-grown sugarcane. Raw sugar can only be imported by processors that will use it for their own refining, while refined sugar may be imported by food processors for their own production. Also, whenever it deems necessary, the GOI can grant sugar mills permission to import raw sugar for white sugar production, provided that it is used to meet any idle capacity due to domestic cane production shortfalls.

The GOI expects the food and beverage industry to consume domestically produced refined sugar, although it also permits some imports, normally issuing import allocations at the beginning of the year. These allocations are subject to change when certain sugar products cannot be sourced domestically. The GOI limits the validity of refined sugar import permits to six months for the food and beverage industry.

In CY 2014, Indonesian sugar refineries imported a total of 2.665 MMT of raw sugar that must be refined and distributed to the domestic food and beverage industry from the total authorization of 2.8 MMT. The CY 2015 total allocation for raw sugar imports by refineries is estimated to remain the same. In CY 2014, the GOI also authorized a total of 158,000 MT of raw sugar to fill sugar mills' idle capacity and 397,800 MT for raw material in monosodium glutamate production. On April 2014, GOI authorized BULOG, the national logistic agency, to import a total of 328,000 MT of white sugar. However, as of the end of CY 2014, BULOG only brought in 21,600 MT of white sugar despite the relatively low prices of sugar on the international market. Short import approval validity limited BULOG's capacity to achieve the total volume granted in the import realization. The GOI continues restricting imports of plantation white sugar one month prior to, during, and two months after the milling period.

The GOI sets sugar import duties as follows:

Table 6. Indonesia: Sugar Import Duty (ID) and Value Added Tax (VAT), 2014

No.	Commodity	ID		VAT (%)
		(Rp./Kg)	(US\$/ton)	
1.	Raw sugar from sugar cane	550		10
2.	White sugar	790		10
3.	Refined sugar	790		10

Source: Indonesian Customs Tariff Book 2012.

In CY 2013/14, the primary refined sugar suppliers were Thailand (41 percent), Malaysia (18 percent), and an additional 34 percent transshipped through Singapore. Raw sugar was supplied by Thailand (47 percent) and Brazil (40 percent). Indonesia imports most of its sugar from Thailand due to freight advantage, and because Thailand can meet Indonesia's unique specifications ("Indospec").

Policy

Amid concerns of the 'illegal' distribution of refined sugar to retail markets for direct human consumption, the Minister of Trade issued regulation No. 1300/2014, revoking Minister of Trade Regulation No. 111/2009. The recent regulation prohibits distribution of refined sugar by distributors or sub distributors. Refined sugar must be sold directly as a raw material for further processing to the food and beverages industry. The regulation also stated that the Ministry of Trade will issue raw sugar import approvals every quarter based on purchasing contracts between refineries and refined sugar users (the food and beverage industry). MOT will assign an independent surveyor to conduct audits of refinery production capacity so that the volume of refined sugar produced will not exceed demands from the food and beverage industry.

Note: Exchange rate is Rp. 13,191/US\$ 1, as of March, 2015.