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Indonesia

Coffee Annual

Indonesia Coffee Annual Report 2016

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Report Highlights:
El Nino-induced dry weather disrupted flowering and ripening for Indonesia’s coffee crop, resulting in an expected decline in MY 2016/17 Indonesian coffee production. Drought was most acutely felt in lowland areas of Southern Sumatra and Java, where approximately 75 percent of Indonesia’s Robusta crop is grown. Robusta production is thus expected to decline by approximately 15 percent, while Arabica production, which is situated primarily in Northern Sumatra, was mostly unaffected by the El Nino event. 2016/17 exports are estimated to decline to 7.9 million bags GBE in response to low production. 2016/17 imports are expected to rise to 1.04 million bags GBE due to production declines and rising Indonesian consumption

Commodities:
Green, Coffee

Production

Indonesia experienced a severe El Nino phenomenon in 2015/16, resulting in drought throughout much of the archipelago. The dry weather disrupted flowering and ripening for Indonesia's coffee crop, resulting in an expected decline in MY 2016/17 Indonesian coffee production. Dry weather was most acutely felt in lowland areas of Southern Sumatra and Java, where approximately 75 percent (estimated) of Indonesia's Robusta crop is grown. Coffee growers and traders report that the Robusta crop is expected to decline by approximately 15 percent. Arabica production, which is situated primarily in Northern Sumatra, was mostly unaffected by the El Nino event.

Growers report that most plantations were heavily exposed to dry weather throughout Southern Sulawesi, Java and Eastern Indonesia. They note that limited adoption of drought resistant planting stock and low intensity management systems offered little protection from the extreme weather. Based on these factors, Post expects production for MY 2016/17 will drop about 15 percent to 10 million bags green bean equivalent (GBE). Post also raises 2015/16 production up to 11.75 million GBE. 2015/16 revisions are based on grower reports of strong production, largely attributed to favorable weather.

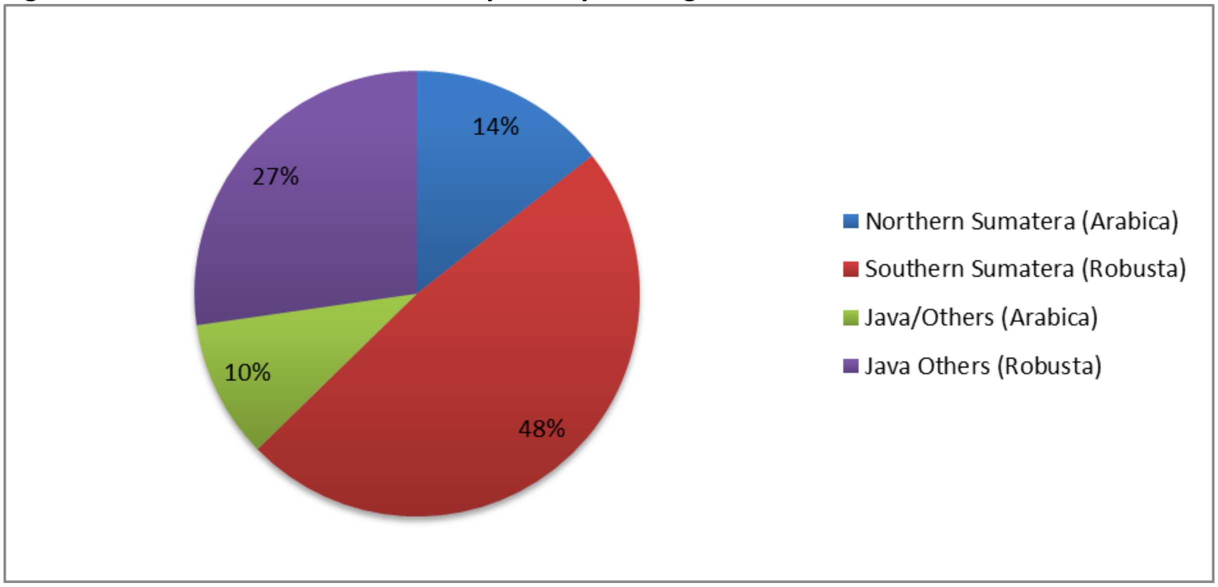
Post expects planted area for Arabica to expand at a slow pace, supported by Government of Indonesia programs encouraging coffee planting and premiums for Arabica growers. These programs include permitting state owned forestry lands to be converted to coffee production. For example, Perhutani, an Indonesian state-owned forestry company, is allowing coffee production on some of its forest lands.

Table 1. Indonesia Coffee Production Area Characteristics

Region	Topography	Key Production
Northern Sumatera	Highland areas (>90 pct)	Arabica
Southern Sumatera	Low (40 pct) and Highland (60 pct)	Robusta
Java and others	Low and Highland	Arabica, Robusta

Source: Industry contacts

Figure 1. Indonesia Coffee Production By Variety and Region



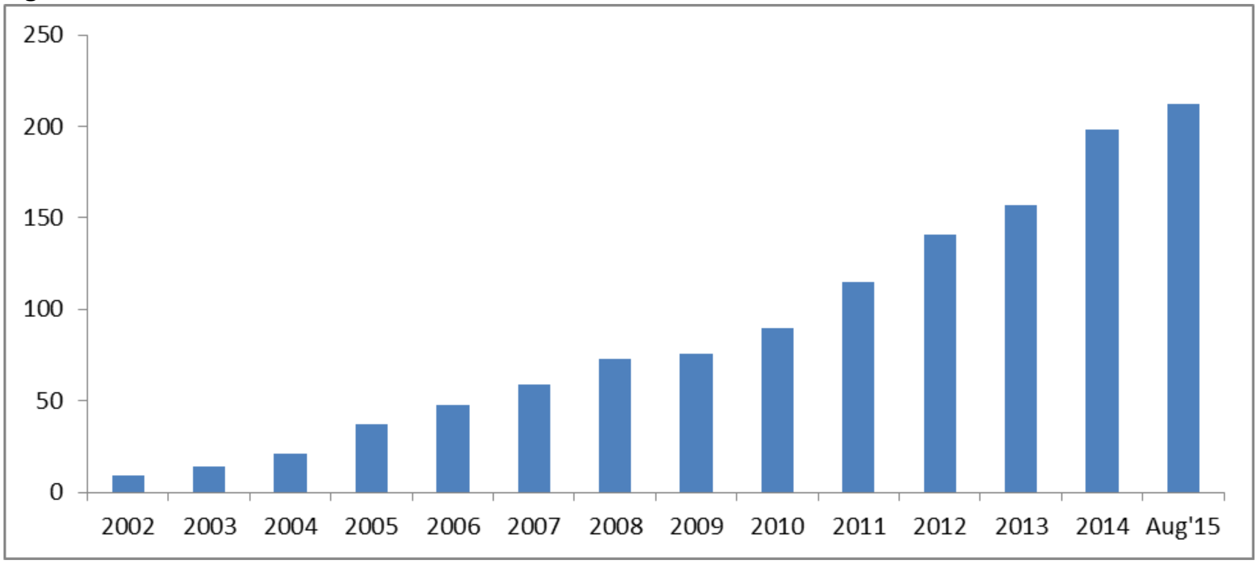
Source: Indonesian Ministry of Agriculture, 2014

Consumption

Indonesian coffee consumption continues to expand, growing at a faster pace than production. Industry contacts report that growth is being led by soluble coffee consumption, as well as ready to drink beverages such as bottled coffee. Retail coffee shops also continue to grow, expanding in business centers, shopping malls and transportation hubs. For example, Starbucks coffee reports that they have expanded to 212 outlets as of August 2015, a seven percent jump over 2014. Other chains with smaller footprints are expected to grow at fast pace, while the number of new independent coffee houses is also on the rise. Additional coffee outlets include convenience stores (Indomaret, Alfamart and 7-11) and street hawkers, including hawkers selling instant coffee from bicycles.

Retail coffee shops tend to focus on high quality specialty coffees, dominated by Arabica beans, while instant coffees and ready to drink beverages primarily focus on Robusta bean consumption. Based on these factors, 2016/17 consumption is expected to increase to 3.15 million bags, GBE, an increase of approximately 2 percent. Post's 2015/16 consumption estimate is unchanged at 3.09 million bags, GBE.

Figure 1. Number of Starbucks Retails Outlets 2002-2015



Source: Starbucks

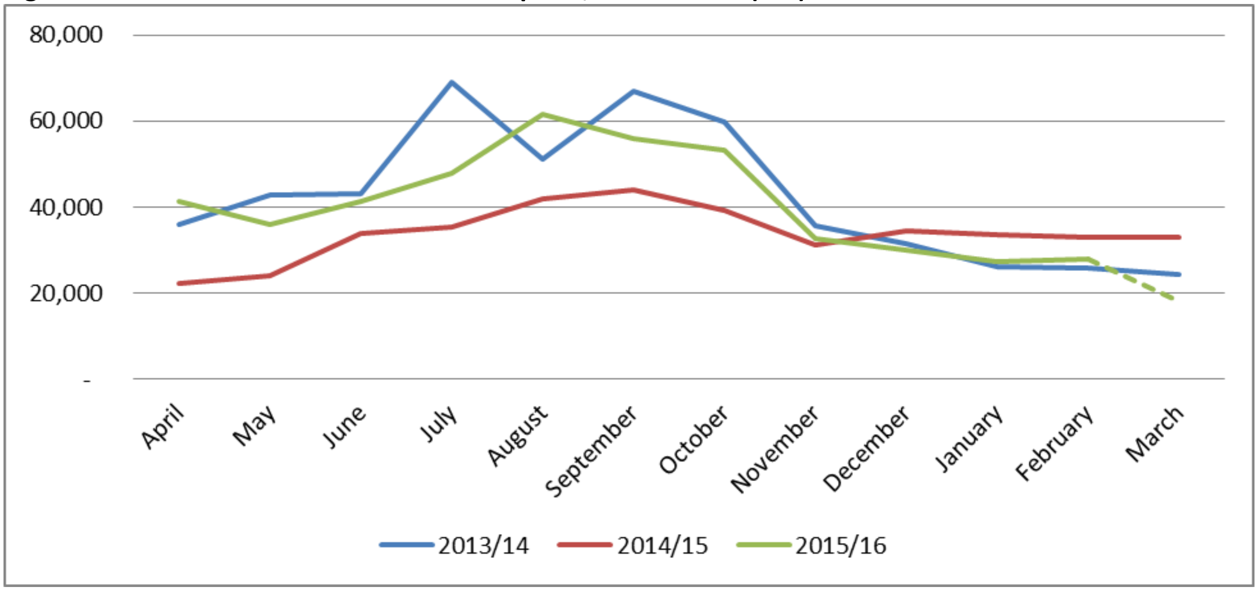
Policy

Indonesia maintains a policy allowing coffee inter-cropping on state-owned forest area. Post notes however, that the program only provides access to land. Additional inputs such as planting stock, fertilizer, and program-specific extension services are not provided. As such, planting expansion due to the program is limited. Perhutani reports that there is nearly 300,000 hectares of forested land suitable for coffee production, as well as additional areas in East Java. Many of the forested areas are situated at elevations suitable for Arabica production.

Trade

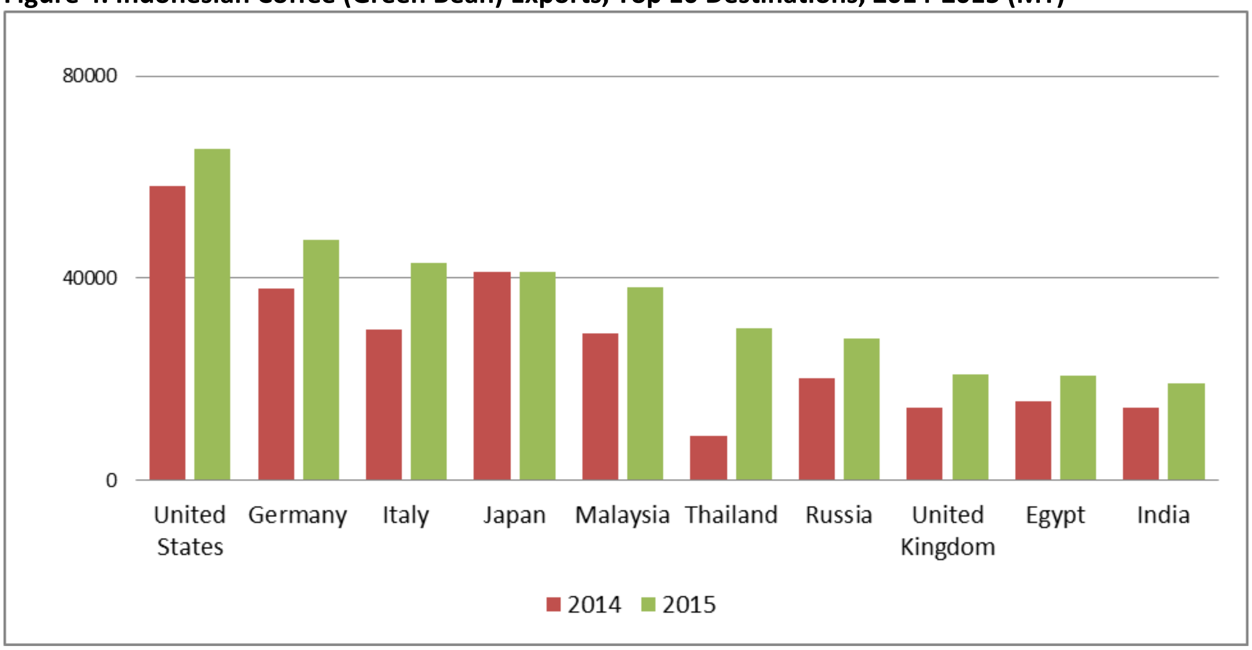
Post estimates 2016/17 exports to decline to 7.9 million bags GBE, based on low production. 2016/17 imports are expected to rise to 1.04 million bags GBE from 990 thousand bags GBE in 2015/16. The rise in imports is expected due to the decline in 2016/17 production compounded by rising Indonesian consumption. 2015/16 imports are also raised to 990 thousand metric tons, based on trade data. Post notes that export pace has dropped off since January 2016. While export pace normally picks up in June, traders expect peak export season delays due to late harvesting. Anticipated late harvest is the result of drought in 2015/16. Most Indonesian beans were exported to U.S., Europe and Japan in 2014/15.

Figure 3. Indonesian Green Bean Coffee Exports, Metric Tons (MT)



Source: Global Trade Atlas
Note: March 2016 data is estimated

Figure 4. Indonesian Coffee (Green Bean) Exports, Top 10 Destinations, 2014-2015 (MT)



Source: Global Trade Atlas

Stocks

2016/17 ending stocks are relatively stable at 73 thousand bags GBE, compared to 83 thousand bags in 2015/16. The decline is attributable to decreasing production and growing domestic demand. 2015/16 stocks are revised slightly upwards in response to higher than expected production.

Production, Supply and Demand Data Statistics:

Coffee, Green Market Begin Year Indonesia	2014/2015		2015/2016		2016/2017	
	Apr-14		Apr-15		Apr-16	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,238	1,238	1,240	1,240	-	1,240
Area Harvested	1,200	1,200	1,200	1,200	-	1,200
Bearing Trees	1,155	1,155	1,160	1,160	-	1,160
Non-Bearing Trees	17	17	15	15	-	15
Total Tree Population	1,172	1,172	1,175	1,175	-	1,175
Beginning Stocks	48	48	53	53	-	83
Arabica Production	1,450	1,450	1,305	1,350	-	1,300
Robusta Production	7,350	7,350	9,300	10,400	-	8,700
Other Production	-	-	-	-	-	-
Total Production	8,800	8,800	10,605	11,750	-	10,000
Bean Imports	400	400	200	340	-	340
Roast & Ground Imports	175	175	6	-	-	-
Soluble Imports	720	720	380	650	-	700
Total Imports	1,295	1,295	586	990	-	1,040
Total Supply	10,143	10,143	11,244	12,793	-	11,123
Bean Exports	5,100	5,100	5,500	7,700	-	6,100
Rst-Grnd Exp.	40	40	30	-	-	-
Soluble Exports	1,900	1,900	2,550	1,920	-	1,800
Total Exports	7,040	7,040	8,080	9,620	-	7,900
Rst,Ground Dom. Consum	2,275	2,275	2,300	2,300	-	2,320
Soluble Dom. Cons.	775	775	790	790	-	830
Domestic Consumption	3,050	3,050	3,090	3,090	-	3,150
Ending Stocks	53	53	74	83	-	73
Total Distribution	10,143	10,143	11,244	12,793	-	11,123
		-		-		-
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						