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Indonesia

Coffee Annual

2013

Approved By:

Ali Abdi

Prepared By:

Jonn Slette/Ibnu Wiyono

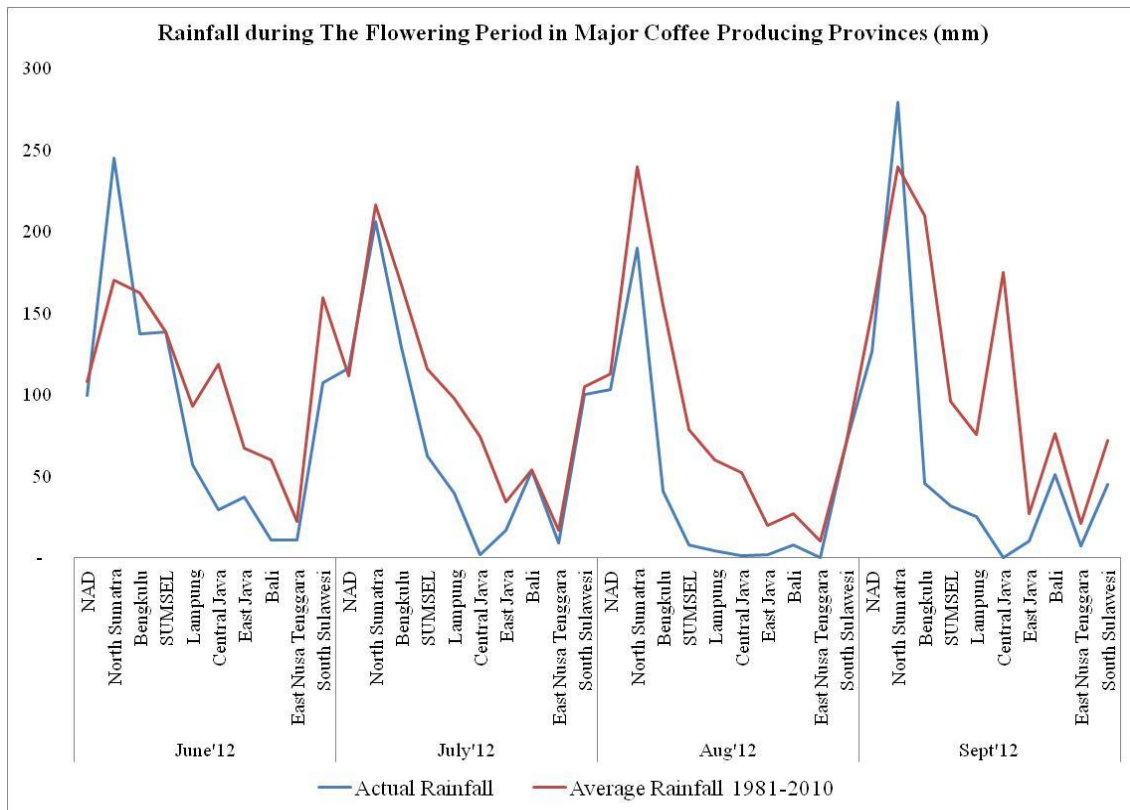
Report Highlights:

- Indonesia coffee production is expected to decline by 5.5 percent in Marketing Year (MY) 2013/2014. Lower production is principally due to poor weather, to include drought conditions during flowering, followed by excessive rainfall during early cherry development.
- Post estimates that bad weather impacted about 85 percent of Indonesia's coffee producing areas.
- Indonesian coffee consumption is projected to increase to 2.58 million 60-kg bags green bean equivalent (bags) in MY 2013/2014. Consequently, Indonesia exports & ending stocks are expected to decline, and imports are expected to increase.
- In addition to weather factors, Indonesian coffee exports will be challenged by Japanese carbaryl residue levels for coffee, and strong global demand for coffee labeled with certifications from UTZ, Rainforest Alliance, CAFÉ, and USDA Organic.

Commodity:
Green, Coffee

Production:

Indonesian coffee production is predicted to reach 9.165 million bags in MY 2013/2014, a 5.5 percent drop over coffee production from MY 2012/2013. Difficult weather conditions during the flowering and fruiting periods will decrease Indonesia’s coffee production in MY 2013/2014.



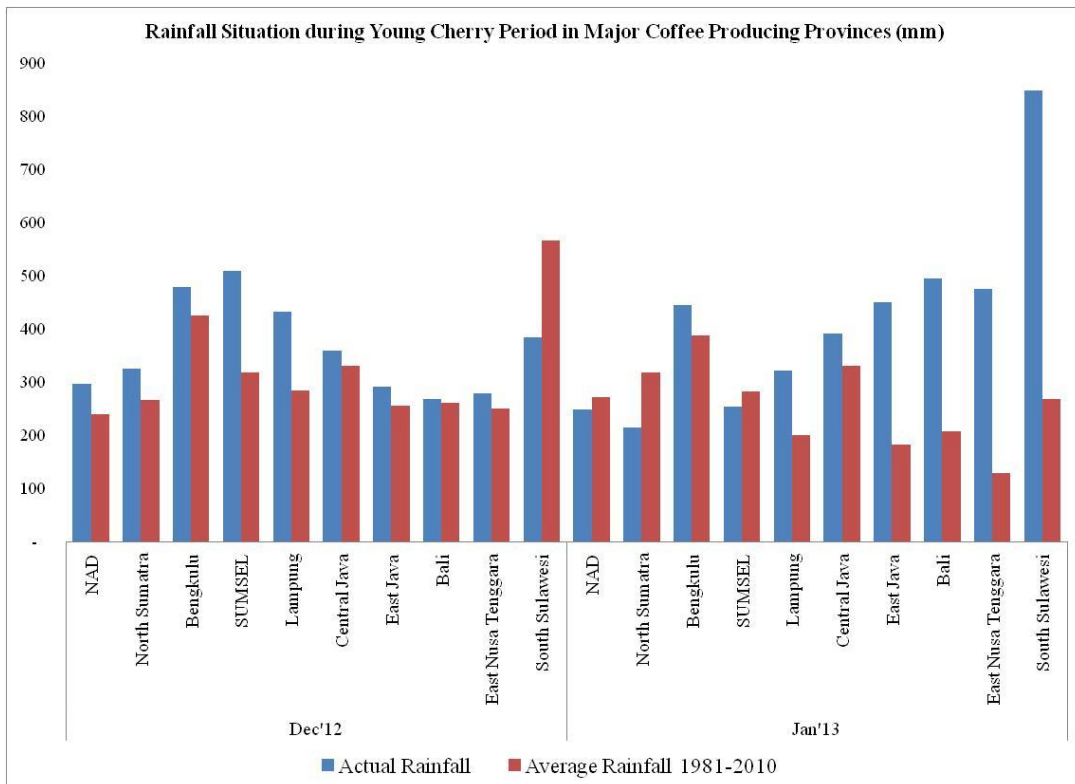
Source: BMKG

Drought occurred in 85 percent of major Indonesian coffee production areas during the critical flowering period (June-September 2012). Drought led to poor conditions for flowering and budding.



Notes: The coffee crops that suffer from dry conditions in Central Java – September 2012
 Source: Association of Indonesian Coffee Exporter of Central Java

By contrast during the onset of the most recent cherry development stage (December 2012-January 2013) most Indonesian production areas received above average levels of rainfall. Heavy rains pounded young coffee cherries and a significant portion of the cherries were lost as a result.



Source: BMKG

As a result of floral abortion due to drought, followed by the loss of young coffee cherries due to excessive rainfall, Post expects that Indonesian coffee production will decrease in MY 2013/2014.

Coffee production in northern Sumatra, to include the provinces of Aceh and North Sumatra, were generally unaffected by aforementioned weather patterns. These two provinces account for about 15 percent of Indonesia's national coffee production. Aceh and North Sumatra have experienced favorable weather patterns, with relatively normal levels of rainfall during key production periods and post harvest.

Ongoing issues that limit production at the farm level include limited knowledge of best practices, widespread use of low quality and uncertified planting materials, an abundance of older, less productive trees are factors that make Indonesian coffee production particularly prone to random changes and/or severe weather patterns.

The Indonesian Ministry of Agriculture (MOA) is aware of the abovementioned challenges small-scale coffee producers face on their farms. Since 2007, the MOA has conducted an ongoing coffee development program that aims to intensify production, rejuvenate crops, replant new crops, and expand planted area. The following table reflects the results of their efforts:

MOA's Coffee Development Program 2007-2013

No	Year	Activity	Location	Areal (Ha)
1	2007	- Specialty coffee rehabilitation	4 Prov / 4 districts	500
		- Expansion of smallholder coffee plantation	1 Prov / 1 districts	100
		- Expansion of Arabica coffee plantation	1 Prov / 1 districts	100
		- Coffee planting	1 Prov / 1 districts	180
2	2008	- Robusta coffee rehabilitation and rejuvenation	1 Prov / 2 districts	225
		- Specialty coffee development	11 Prov / 23 districts	3,746
		- Development of coffee plantation in peatland area	1 Prov / 1 districts	50
3	2009	- Specialty coffee development	9 Prov / 21 districts	2,307
		- Robusta coffee rehabilitation and rejuvenation	7 Prov / 8 districts	1,055
		- Integrated coffee plantation and livestock	2 Prov / 3 districts	
4	2010	- Development, rehabilitation, and rejuvenation of specialty coffee	12 Prov / 32 districts	5,299
		- Robusta coffee rehabilitation	5 Prov / 7 districts	323
		- Integrated coffee plantation and livestock	2 Prov / 4 districts	447
5	2011	- Robusta coffee rehabilitation and rejuvenation	7 Prov / 13 districts	955
		- Arabica coffee planting area expansion	2 Prov / 3 districts	101
		- Expansion, rehabilitation, and rejuvenation of specialty coffee	8 Prov / 3 districts	1,426
6	2012	- Arabica coffee expansion and Robusta coffee rejuvenation	12 Prov / 20 districts	4,600
		- Intensification of specialty coffee	7 Prov / 11 districts	13,510
7	2013	- Intensification of specialty coffee (Arabica and Robusta)	12 Prov / 19 districts	5,610

Source: MOA, Directorate General of Estate Crops

Thus far the MOA's efforts have not significantly enhanced Indonesia's coffee production. The program has been plagued by complicated bureaucratic problems between local and central

governments, poor coordination among Indonesian coffee stakeholders, and a top-down approach that is ineffective in channeling support and resources to coffee farmers.

Consumption:

Indonesian coffee consumption is growing rapidly due to positive factors on both at the demand and supply sides. Post predicts that domestic coffee consumption will grow from 2.49 million bags in MY 2012/2013 to 2.58 million bags in MY 2013/2014.

Increased demand stems from solid economic growth in Indonesia, higher incomes, a young population, rapid urbanization, and a growing middle class group. Urban population in Indonesia accounted for 51 percent of total population in 2011 and according to the World Bank, it will increase to 58 percent of total population by 2015. The World Bank also predicts that middle class consumers (*defined as one with disposable household income of over \$3,000 per year*) will increase from nearly 50 million people in 2009 to approximately 150 million people by 2014.

Factors on the supply side include the growing number of local and international franchises, innovative products, and more Indonesian entrepreneurs becoming active in coffee roasting and processing.

Three-in-one, individual packets of instant coffee are a favorite product with Indonesian consumers and have advanced Indonesia's domestic coffee consumption (see [Indonesian Semi-Annual Coffee Report 2012](#)). Strong growth in the coffee shop sector is another significant driver of Indonesian coffee consumption growth. While the quantitative data that can confirm the positive growth of coffee shops in Indonesia is currently unavailable, the growth of this sector is also evident via the following indications:

- Starbucks Indonesia is committed to opening an additional 100 outlets in the next three years. If they are successful, Starbucks will have 247 outlets by early 2016.
- The participants of Indonesian Barista Competition 2013 increased by 50 percent compared to that of 2012. Furthermore, for the 2013 competition, the Specialty Coffee Association of Indonesia (SCAI) as an organizer of Indonesian Barista Competition had to limit participants due to higher-than-expected response. Higher participation in barista competition indicates the establishment of new coffee shops within 2012-2013 timeframe as those baristas represents the coffee shops where which they are employed.
- SCAI membership from coffee retailers has grown rapidly. SCAI affiliated retailers and coffee shop operators can leverage their memberships to directly access SCAI affiliated Indonesian specialty coffee suppliers.
- Indonesian coffee shops set themselves apart from international franchises by marketing themselves as a place where customers can enjoy single origin Indonesian specialty coffees such as Toraja, Preanger, Mandheling, Gayo, Flores, and Kintamani coffees. Locally owned coffee shops tend to focus less on serving coffee flavored drinks. Their marketing pitch is focused on

real Indonesian coffee, instead of the syrup and milk laden drinks offered by international chains.

- Increased demand for small-medium size roasting machines that are mainly used by individual and coffee shops.
- Indonesian coffee traders report substantial increases in local sales of green coffee beans at small quantity (5-10 bags per order) over the last three years.

Trade:

The Association of Indonesian Coffee Exporters predicts that Indonesian coffee export will decline by approximately five percent in MY 2013/2014 due to lower production and stronger domestic coffee consumption. Post expects Indonesian coffee exports to decrease from 8.1 million bags in MY 2012/2013 to 7.75 million bags in MY 2013/2014. As domestic production cannot satisfy local demand, Indonesian coffee imports are also expected to increase from 950,000 bags in MY 2012/2013 to 1.085 million bags in MY 2013/2014.

In terms of international trade, the Indonesian coffee sector faces some challenges, to include:

- *Carbaryl¹ residue*: In recent years Japan has rejected, on average, between 20 and 30 containers of Indonesian robusta coffee beans, citing excessive levels of carbaryl residue. According to Japanese regulators, one kilogram Indonesian robusta coffee may contain 0.5 – 0.7 mg carbaryl, which is far above Japan's standard of 0.01 milligram per kilogram. The Government of Indonesia has urged Japan to harmonize its carbaryl limits with the European Union's standard at 0.1 milligram per kilogram. Currently CODEX does not provide carbaryl maximum residue limits (MRL) on coffee². Japan may persist with its own standard due to the absence of international carbaryl MRL for coffee.
- *Increasing global demand for sustainably certified coffee*. In 2001 coffees certified with voluntary labels made up one percent of global market. By 2010, coffees with voluntary labels constituted 8 percent in 2010. Some analysts predict that coffees bearing various certifications will reach 20% by 2015 (*Pierrot et al. 2010*). Most of the world's major coffee processors have committed to increasing certified coffee procurement (*Jeff Nielson: 2013*). Nestle has announced its intention to procure an additional 90,000 metric ton of Rainforest Alliance certified coffee by 2020. Sara Lee will purchase at least 350,000 MT of UTZ certified coffee by 2016. The vast majority of Indonesian coffee producers, to include small holders, are not currently certified as 'green', organic, or fair trade. Indonesian producers' lack of certification could decrease global market share for Indonesian coffee. Moreover, small-scale Indonesian coffee producers could miss opportunities to receive higher premiums for their coffee.

¹ **Carbaryl** (1-naphthyl methylcarbamate) is a chemical in the carbamate family used chiefly as an insecticide.

² <http://www.codexalimentarius.net/pestres/data/pesticides/details.html?id=8>

Stocks:

Lower production and stronger domestic demand will decrease Indonesian coffee stocks from 148,000 bags in MY 2012/2013 to 68,000 bags in MY 2013/2014.

Production, Supply and Demand Data Statistics:

Coffee, Green Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	1,250	0	1,240		1,235
Area Harvested	0	1,150	0	1,180		1,200
Bearing Trees	0	1,215	0	1,245		1,265
Non-Bearing Trees	0	105	0	65		40
Total Tree Population	0	1,320	0	1,310		1,305
Beginning Stocks	83	83	88	88		148
Arabica Production	1,300	1,300	1,700	1,700		1,630
Robusta Production	7,000	7,000	8,000	8,000		7,535
Other Production	0	0	0	0		0
Total Production	8,300	8,300	9,700	9,700		9,165
Bean Imports	900	900	350	350		485
Roast & Ground Imports	135	135	150	150		150
Soluble Imports	400	400	450	450		450
Total Imports	1,435	1,435	950	950		1,085
Total Supply	9,818	9,818	10,738	10,738		10,398
Bean Exports	4,950	4,950	6,100	6,100		5,950
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	2,500	2,500	2,000	2,000		1,800
Total Exports	7,450	7,450	8,100	8,100		7,750
Rst,Ground Dom. Consum	1,880	1,880	1,840	1,840		1,850
Soluble Dom. Cons.	400	400	650	650		730
Domestic Use	2,280	2,280	2,490	2,490		2,580
Ending Stocks	88	88	148	148		68
Total Distribution	9,818	9,818	10,738	10,738		10,398
1000 HA, MILLION TREES, 1000 60 KG BAGS						