

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Required Report - public distribution

Date: 4/20/2009

GAIN Report Number: ID9008

Indonesia

COTTON AND PRODUCTS ANNUAL

Cotton and Products Annual Report 2009

Approved By:

Dennis Voboril

Prepared By:

Sugiarti Meylinah

Report Highlights:

High prices of cotton in the international market in mid CY 2008 and the global economic crisis in late CY 2008 have lowered Indonesian cotton use to 1.9 million bales in MY 2008/09, and it is forecast to further decline to 1.8 million bales in MY 2009/10. There is no significant improvement in Indonesian cotton production which is estimated to be stagnant at 29,000 bales in MY 2009/10.

Executive Summary:

The United States, Japan, and European Union have been the major destinations for Indonesian textile and textile product exports. The global economic crisis that began in the United States in late 2008 has severely hit the Indonesian textile industry and reduced the value of Indonesian textile and textile product exports in CY 2008. This led to a significant decline in Indonesian cotton imports, consumption, and ending stocks. However, the United States remains a major supplier of cotton to Indonesia due to the reliable supply and quality.

Commodities:

Cotton

Production:

Despite GOI intentions to expand area planted with cotton in South Sulawesi, West and East Nusa Tenggara, Bali, East Java, Central Java, and Yogyakarta, no significant improvements were seen in cotton production during MY 2008/09. Farmers prefer to grow crops that provide greater revenues, such as corn or rice. Therefore, in MY 2008/09 Indonesian cotton production is estimated to be stagnant at 29,000 bales. Indonesian major cotton production areas are South Sulawesi (46 percent), East Java (19 percent), West Nusa Tenggara (17 percent), and central Java (11 percent).

Consumption:

The Indonesian textile industry accounts for 13 percent of export revenue and 1.2 million workers in Indonesia. Indonesian textile mills are running at around 70 percent of its capacity of 7.85 million spindles and 110,000 rotors. Total cotton use for MY 2009/10 will decrease 3 percent compared to MY 2008/09, despite efforts by the government to revive what is considered to be the sunset industry by many investors.

Industry reports that since October 2008, the price of cotton in the international market significantly declined more than US\$ 0.5 per lb, while many spinners have had the contracts fixed when the price of cotton was nearly US\$ 1 per lb which led to some delay shipments and opening letters of credit. At the same time, the Indonesian rupiah weakened against U.S. dollar and yarn selling prices dropped significantly. As a result some companies were forced to limit production or stop production due to the lack of working capital. Despite better yarn selling prices in March 2009, some of these companies are still unable to resume operations.

The global economic crisis significantly impacted the Indonesian textile and textile product industry. The United States has been the main destination for Indonesian textile and textile product exports with a 38 percent market share, followed by EU (19.4 percent), Middle East (9.7 percent), and Japan (5 percent). According to data compiled by the Indonesian Statistics Agency (BPS), Bank of Indonesia, and the Indonesian Textile Association, the impact of the global economic crisis has slowed down the growth of Indonesian textile and textile products exports value to 4 percent in CY 2008, and it is forecast to decline further to 2 percent in CY 2009.

The shrinking U.S., Japan, and EU textile and textile product market prompted competing supplying countries to ship to Indonesia, which has led to tighter competition in the Indonesian domestic market.

Moreover, the higher wages and lower productivity of the Indonesian textile workers compared to other Asian countries made Indonesian products less competitive.

Stocks:

In line with the decrease in imports of cotton, MY 2008/09 ending stocks are estimated to decline to 246,000 bales. Some mills prefer to source cotton from local trader existing stocks instead of imports. Some mills are switching to synthetic fibers due to the increasing price of cotton in the international market. In MY 2009/10, ending stocks are forecast to decline further to 215,000 bales.

Policy:

Most of the machineries used by the Indonesian textile industry are more than 20 years old. These old machines lower productivity levels and increase the energy and power used. In 2007, GOI provided funds under the Machinery Restructuring for Textile and Textile Products Industry Program in an effort to increase the textile industry productivity. This program is expected to create 22,000 new jobs in CY 2009. There are two facilities under this program. The first facility is for any textile and textile product manufacturers who wish to purchase machines with a minimum investment of Rp. 5 billion (US\$ 440,000). These companies will receive a 10 percent reimbursement from the government on the equipment. If a company purchased domestically produced machines, GOI will reimburse 15 percent of the price.

The second facility is a loan from Rp. 100 million (US\$ 8,800) to Rp. 5 billion (US\$ 440,000) at the discount rate of 7 percent during the 5-year-term.

A total of Rp. 213 billion (US\$ 18.7 million) has been set aside under the first facility during July 1, 2008 to November 15, 2009 while another Rp. 27 billion (US\$ 2.4 million) has been set aside under the second facility. The Ministry of Industry expects that around 200 textile and textile product manufacturers will participate in the program during CY 2009.

Nevertheless, some fundamental problems may hinder the goal to increase industry productivity through this program. Around 70 percent of total energy demand from the textile industry is fulfilled by the National Electricity Company (PLN), and currently PLN continues imposing the premium rate during the peak hours of 5:00 to 10:00 PM, which increases production costs by 10-15 percent.

In December 2008, the Ministry of Trade issued a regulation limiting the ports of entry for certain imported goods including textile products, food and beverages, shoes, electronics, and toys to five ports namely Belawan in North Sumatera, Tanjung Priok in Jakarta, Tanjung Emas in Central Java, Tanjung Perak in East Java, and Soekarno Hatta in South Sulawesi. Import permits will be given to companies who are and who hold a Specific Importer Identification Number (NPIK). This regulation was put into force on January 1, 2009 and will be effective through December 31, 2010.

Marketing:

Indonesian cotton production meets only 1 percent of overall Indonesian textile industry need for cotton, while the balance is filled from imports. In MY 2008/09, Indonesian imports of cotton are estimated to decline to 1.8 million because some mills have switched to

synthetic fibers, overstocks from previous MY 2007/08 held by local traders, and some mills that were out of business or reduced production. The Indonesian textile industry is not expected to fully recover before MY 2009/10. Therefore, cotton imports are forecast to remain stagnant at 1.8 million bales in MY2009/10. In MY2008/09, the United States continued as the largest supplier of cotton to Indonesia with an approximately 56 percent market share, followed by India (15 percent), Brazil (12 percent), and Australia (7 percent).

Production, Supply and Demand Data Statistics:

TABLE 1. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN MT

Country Indonesia									
Commodity Cotton								(HECTARES) (MT)	
		2007 Revised		2008 Estimate		2009 Forecast			
		USDA Off.	Post Est.	Post Est. New	USDA Off.	Post Est.	Post Est. New	USDA Off.	Post Est. New
Market Year Begin	08/2007			08/2008			08/2009		
Area Planted	0	0	0	0		0			0
Area Harvested	10	9	10	9		9			9
Beginning Stocks	76640	84478	76640	84696		73810			53561
Production	6967	6532	6967	6532		6314			6314
Imports	500773	500771	489887	435455		391909			391909
MY Imports from U.S.	0	225347	274119	0		248209			250386
Total Supply	584380	591781	573494	526683		472033			451784
Exports	4355	5225	4355	4355		3701			3266
Use	484443	490102	484443	435455		403884			391909
Loss	10886	11540	10886	10886		10886			9798
Total Dom. Cons.	495330	501642	495330	446341		414770			401707
Ending Stocks	84696	84914	73810	75987		53561			46811
Total Distribution	584380	591781	573494	526683		472033			451784
Stock to Use %	17	17	17	17		13			12
Yield	151690	158021	151690	158021		152747			152747

Note: Not official USDA data.

**TABLE 2. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN BALES
(HECTARES)1000 480 lb. Bales(PERCENT)(KG/HA)**

Cotton Indonesia	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Aug 2007		Market Year Begin: Aug 2008		Market Year Begin: Aug 2009	
	Annual Data	New	Annual Data	New	Annual Data	Jan

	Displayed		Post	Displayed		Post	Displayed	
			Data			Data		Data
Area Planted	0	0	0	0		0		0
Area Harvested	10	9	10	9		9		9
Beginning Stocks	352	388	352	389		339		246
Production	32	30	32	30		29		29
Imports	2,300	2,300	2,250	2,000		1,800		1,800
MY Imports from U.S.	0	1,035	1,259	0		1,140		1,150
Total Supply	2,684	2,718	2,634	2,419		2,168		2,075
Exports	20	24	20	20		17		15
Use	2,225	2,250	2,225	2,000		1,855		1,800
Loss	50	53	50	50		50		45
Total Dom. Cons.	2,275	2,303	2,275	2,050		1,905		1,845
Ending Stocks	389	391	339	349		246		215
Total Distribution	2,684	2,718	2,634	2,419		2,168		2,075
Stock to Use %	17	17	15	17		13		12
Yield	697.	725.	697.	726.		702.		702.

Note: Not official USDA data.

Author Defined:

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2007 - 2008)

Import Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Aug-Jul	Units:	1,000 MT
Imports for:	2007		2008
U.S.	275	U.S.	71
Others		Others	
India	103	Australia	17
Brazil	83	Brazil	16
Australia	49	South Africa	7
South Africa	18	Zimbabwe	7
Benin	14	Mozambique	4
Pakistan	13	Tanzania	3
Tanzania	12	Singapore	3
Uzbekistan	11	India	2
Singapore	11	Centr. African Rep.	2
Burkina Faso	10	Burkina Faso	2
Zimbabwe	10	Pakistan	2
Centr. African Rep.	9	Benin	2
Mozambique	7	Uzbekistan	1

Total for Others	350		68
Others not Listed	77		17
Grand Total	702		156

Source: Central Statistics Agency (BPS)

Note: For 2008 is only Aug-Oct 08.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2007 – 2008)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Aug-Jul	Units:	1000 MT
Exports for:	2007		2008
U.S.	2	U.S.	0
Others		Others	
Taiwan	7	Taiwan	1
Japan	4	Hong Kong	1
Hong Kong	3	Vietnam	1
Vietnam	3	Japan	1
Belgium	1	China	
China	1	Thailand	1
Germany	1	India	
Italy	1		
Thailand	1		
Total for Others	22		5
Others not Listed	5		2
Grand Total	29		7

Source: Central Statistics Agency (BPS).

Note: For 2008 is only Aug-Oct 08.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2007 – 2008)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2007		2008

U.S.	0	U.S.	0
Others		Others	
Pakistan	6	China	8
Taiwan	6	Taiwan	6
China	5	Pakistan	3
Thailand	4	Thailand	3
India	1	India	2
		Hong Kong	2
Total for Others	22		24
Others not Listed	2		2
Grand Total	24		26

Source: Central Statistics Agency (BPS)

Note: For 2008 is only Jan-Oct 08.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2007 – 2008)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2007		2008
U.S.	3	U.S.	2
Others		Others	
Hong Kong	13	Hong Kong	4
Japan	12	Japan	10
China	9	Portugal	1
Malaysia	8	China	7
Sri Lanka	6	Malaysia	6
Philippines	3	Sri Lanka	5
Germany	2	Philippines	3
Taiwan	2	Taiwan	1
Singapore	2	Germany	1
Vietnam	1	Egypt	2
Egypt	1	Vietnam	1
Belgium	1	Bangladesh	1
Total for Others	60		42

Others not Listed	23		21
Grand Total	86		65

Source: Central Statistics Agency (BPS).

Note: For 2008 is only Jan-Oct 08.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2007 – 2008)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2007		2008
U.S.	1	U.S.	1
Others		Others	
China	94	China	158
Malaysia	16	Hong Kong	85
Hong Kong	8	Rep. of Korea	47
Pakistan	5	Taiwan	20
Taiwan	4	Malaysia	12
Rep. of Korea	4	Pakistan	3
Singapore	1	Thailand	2
Indonesia	0	Turkey	2
Total for Others	132		329
Others not Listed	3		13
Grand Total	136		343

Source: Central Statistics Agency (BPS).

Note: For 2008 is only Jan-Oct 08.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2007 – 2008)

Export Trade Matrix

Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2007		2008
U.S.	13	U.S.	8
Others		Others	
Turkey	44	Japan	28
Bangladesh	40	Turkey	20
Japan	38	Italy	16
Italy	31	Bangladesh	11
Hong Kong	28	Germany	11
Germany	16	Hong Kong	8
Taiwan	15	Cambodia	8
Cambodia	11	Netherlands	8
Netherlands	10	Sri Lanka	8
Belgium	10	Taiwan	7
Australia	8	Vietnam	6
Philippines	7	China	5
China	7	United Arab Emirates	5
Malaysia	6	Thailand	5
United Kingdom	6	Belgium	4
Sri Lanka	5	Australia	4
United Arab Emirates	5	United Kingdom	4
Vietnam	4	Malaysia	3
Singapore	4	Philippines	2
India	3	Canada	2
Canada	2	Singapore	1
Thailand	2	France	1
Spain	2	India	1
France	1	Singapore	1
Total for Others	305		169
Others not Listed	48		44
Grand Total	366		221

Source: Central Statistics Agency (BPS).

Note: For 2008 is only Jan-Oct 08.

Note:

Exchange rate is Rp. 11,380/US\$ 1 as of April 2009.

