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Indonesia

SUGAR ANNUAL

Sugar Annual Report 2009

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Report Highlights:

In MY 2009/10, Indonesian plantation white sugar production is forecast to reach 2.1 MMT, an increase of 6 percent compared to 1.97 MMT produced in MY 2008/09. Imports are expected to decrease particularly since GOI indicates it will not issue any licenses to import plantation white sugar in MY 2009/10. In MY 2008/09, approximately 1.3 MMT refined sugar was produced and the amount is forecast to be stagnant through MY 2009/10.

Executive Summary:

Indonesian sugar is strictly regulated by the government. Raw sugar can only be imported by the refineries to be used as the raw material for refined sugar production. Only food and beverages industry can import refined sugar with a quality that cannot be produced domestically. Unless there is a production shortage and price hike in Indonesian domestic market, no plantation white sugar can be imported. Import permits are only given to some certain registered importers.

In MY 2009/10, it is forecast that Indonesia will produce 2.1 MMT of plantation white sugar, a slight increase compared to 1.97 MMT in MY 08/09. In MY 2009/10, it is expected that there will be no imports of plantation white sugar, while imports of raw sugar are estimated to increase to 1.65 MMT.

The retail price of Indonesian plantation white sugar was relatively stable until February 2009, when the price increased to Rp. 7,406/kg (US\$ 641/ton) following a drop in supplies because the milling season has not started.

GOI further restricted imports in MY 2008/09 by limiting the amount and length of time sugar could be imported. As a result, estimated raw and refined sugar imports for MY 2008/09 are 2.1 MMT, which represents a reduction of 14 percent.

Commodities:

Sugar, Centrifugal

Production:

Indonesia produces plantation white sugar from sugar cane aimed for retail sale as well as refined sugar from imported raw sugar used by the food and beverage industry in their formulation.

A total area of 350,000 hectares was planted with sugar cane in MY 2008/09, and it is forecast to remain stagnant in MY 2009/10. The competition with other crops such as rice, corn, and soybeans, and high land conversion to non-agricultural uses makes it difficult to increase the amount of land dedicated to sugar cane, especially on the island of Java. Moreover, the effort to develop new sugar cane plantations outside of Java is hindered by the lack of supporting infrastructure and land ownership issues. Therefore, the only way to increase production is to improve yield by using higher quality varieties and by harvesting the sugar cane at optimal times rather than based on when the cane was planted.

In MY 2009/10 sugarcane production is forecast to reach 26.6 MMT, an increase of 4 percent compared to sugarcane production in the previous MY 2008/09 of 25.6 MMT. Lower than previously estimated sugarcane production in MY2008/09 are mostly due to high rainfall from December 2008 through March 2009 causing sugarcane plants to bloom early. Most sugar mills are expected to start MY 2009/10 milling period in April 2009 lasting until December 2009. However, less rainfall during harvesting and milling season increases the sugar content of the sugarcane. In MY 2009/10, the average recovery rate is forecast to marginally increase to 7.8 percent, compared to 7.7 percent during MY 2008/09.

A total of 46 sugar mills are located on the island of Java and account for 65 percent of Indonesian plantation white sugar production in MY 2009/10. The balance is produced by 58 sugar mills outside of Java.

In addition to the existing five sugar refineries, two new sugar refineries started operation in MY 2008/09. MY 2008/09 refined sugar production from imported raw sugar totaled 1.3 MMT refined sugar. Refineries are running at 62 percent of total installed capacity. It is forecast that the refineries will produce the same total amount of refined sugar in MY 2009/10.

GOI will continue its policy of allowing sugar mills to import raw sugar to fill their idle capacity following the local harvest. This policy will continue through MY 2009/10. A total of 28 TMT of imported raw sugar is allocated for these mills in MY 2009/10.

Consumption:

Due to growing demand from the food and beverage industry, and in line with the population growth, Indonesian sugar consumption is forecast to increase to 4.56 MMT in MY 2009/10. The consumption of sugar sold at retail level is estimated to reach 2.7 MMT, while the balance will be used by the food and beverage industry. Indonesian per capita sugar consumption is 17 kg per year.

Trade:

GOI restricts white sugar imports to four registered importers sugar companies that also purchase plantation sugar cane from farmers to produce plantation white sugar. Raw sugar and refined sugar can only be imported by producers that will use the raw sugar as a raw material in their formulations.

In January 2009, GOI reduced the amount of raw sugar that could be imported by refineries and refined sugar that could be imported by the food and beverage industry over concerns that refined sugar was being sold at the retail level and to force the food and beverage industry to use domestically produced refined sugar. GOI reduced the time period on import permits issued to the food and beverage industry to once every two months from once every six months.

In MY 2008/09, approximately 450,000 tons raw sugar equivalent of refined sugar was imported by food and beverage manufacturers holding import licenses. Thailand (84 percent), South Korea (5 percent), and Malaysia (5 percent) were the main suppliers of refined sugar to Indonesia while Thailand (85 percent) and India (15 percent) were the main suppliers of raw sugar in MY 2008/09. Indonesia imports most of its sugar needs from Thailand not only because of the freight advantage but also because Thailand can meet Indonesian specifications based on the color (ICUMSA) level that meets the Indonesian sugar requirements called "Indospec".

Approximately 6,300 tons of raw sugar was imported in MY 2008/09 for mills idle after the Indonesian sugar harvest was completed. GOI increased the amount mills could export to 28,000 tons of raw sugar in MY 2009/10.

Stocks:

In MY 2009/10, ending stocks are forecast to decline to 450,000 MT of raw sugar equivalent due to stagnant refined sugar production and with limited imports along with an increase in refined sugar needs from the food and beverage industry.

Policy:

In May 2008, the Minister of Trade amended sugar import regulations, stating that white sugar with an ICUMSA ranging from 70-200 International Units may be imported when the price of white sugar is above Rp. 5,000/kg (US\$ 432/ton) at the farmer level and if the domestic production of white sugar is not sufficient to meet demand. Sugar imports are prohibited one month prior to the milling season, during the milling season, and two months after the milling season. Registered sugar importers are required to buy domestic sugar cane production if the price fall below Rp. 5,000/kg (US\$ 432/ton) at the farmer level.

SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)

No.	Commodity	ID		VAT (%)	Restrictions
		(Rp./Kg)	(US\$/ton)		
1.	Raw sugar from sugar cane	550	60	10	NPIK, IP, SNI
2.	White sugar	790	86	10	NPIK, IT
3.	Refined sugar	790	86	10	NPIK, IT

Source: Indonesian Tariff Book 2007.

Note:

NPIK = Importer must have an approved Specific Importer Identification Number

SNI = Importer must meet Indonesian National Standard

IP = Importer using the imported commodity as ingredients in the formulations.

IT = Registered Importer

In November 2008, GOI implemented the Indonesian National Standard (SNI) for packaged and bulk domestically produced and imported refined sugar. For domestically produced refined sugar, a compliance test will be conducted every three months.

The imported refined sugar must be completed with a Certificate of Analysis declaring the company's name and address, the name of the testing laboratory which has already had a Memorandum of Understanding with the Indonesian products certifying body, and the result of the test. Imported refined sugar that cannot meet the SNI requirements will have to be re-exported or destroyed, while domestically produced refined sugar that cannot meet the SNI standard must no be used by the food and beverage industry and must be withdrawn from the market. The SNI standard for refined sugar is 45-80 ICUMSA level. This regulation was notified to the WTO in February 2009. To this date, all Indonesian sugar refineries have fulfilled this requirement.

GOI postponed the intention to impose the SNI on plantation white sugar in CY 2008 because domestic sugar mills cannot meet the standards and the mills lack the funds to restructure their machines. However, GOI may require mills make the changes in the

future. In Nov 2009, GOI began reimbursing sugar mills 10 percent when they purchased new domestically-produced machines.

Production, Supply and Demand Data Statistics:

PSD: Sugar Cane for Centrifugal

Sugar Cane for Centrifugal Indonesia	2008			2009			2010	
	2007/2008			2008/2009			2009/2010	
	Market Year Begin: May 2007			Market Year Begin: May 2008			Market Year Begin: May 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	
		Data			Data			Data
Area Planted	350	350	350	350	350	350		350
Area Harvested	330	330	330	340	340	340		340
Production	25,300	25,300	25,300	26,400	26,400	25,600		26,600
Total Supply	25,300	25,300	25,300	26,400	26,400	25,600		26,600
Utilization for Sugar	25,300	25,300	25,300	26,400	26,400	25,600		26,600
Utilization for Alcohol	0	0		0	0			
Total Utilization	25,300	25,300	25,300	26,400	26,400	25,600		26,600
TS=TD			0			0		0

Note: Not official USDA data.

PSD: Centrifugal Sugar

Sugar, Centrifugal Indonesia	2008			2009			2010	
	2007/2008			2008/2009			2009/2010	
	Market Year Begin: May 2007			Market Year Begin: May 2008			Market Year Begin: May 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	
		Data			Data			Data
Beginning Stocks	1,190	1,190	1,190	1,290	1,290	1,290		860
Beet Sugar Production	0	0	0	0	0	0		0
Cane Sugar Production	1,950	1,950	1,950	2,060	2,060	1,970		2,100
Total Sugar Production	1,950	1,950	1,950	2,060	2,060	1,970		2,100
Raw Imports	1,850	1,400	1,400	1,500	1,500	1,550		1,650
Refined Imp.(Raw Val)	1,050	1,050	1,050	700	700	550		400
Total Imports	2,450	2,450	2,450	2,200	1,780	2,100		2,050
Total Supply	5,590	5,590	5,590	5,550	5,130	5,360		5,010
Raw Exports	0	0	0	0	0	0		0
Refined Exp.(Raw Val)	0	0	0	0	0	0		0
Total Exports	0	0	0	0	0	0		0
Human Dom. Consumption	4,300	4,300	4,300	4,500	4,500	4,500		4,560
Other Disappearance	0	0	0	0	0	0		0
Total Use	4,300	4,300	4,300	4,500	4,500	4,500		4,560
Ending Stocks	1,290	1,290	1,290	1,050	630	860		450
Total Distribution	5,590	5,590	5,590	5,550	5,130	5,360		5,010
TS=TD			0			0		0

Note: Not official USDA data.

Author Defined:**Prices**

GOI just recently announced the new floor price of plantation white sugar at Rp. 5,350/kg (US\$ 463/ton) at the farm level for MY 2009/10 milling season. The average monthly prices of white sugar at the retail level can be seen in the following table:

**2008 AND 2009 MONTHLY RETAIL WHITE SUGAR PRICES
(Rp./Kg)**

	2008		2009	
	Local	Import	Local	Import
January	6,880	6,740	6,594	6,768
February	6,865	6,190	7,406	7,177
March	6,190	6,215		
April	6,575	6,585		
May	6,580	6,690		
June	6,550	6,663		
July	6,545	6,660		
August	6,505	6,660		
September	6,575	6,635		
October	6,563	6,645		
November	6,500	6,700		
December	6,500	6,736		

Source: Market Information Center (PIP)

Ministry of Industry

Despite a steep increase in the retail price of plantation white sugar in February 2009, it is expected that the price will further decline during the upcoming milling season which will increase supplies of plantation white sugar to the domestic market. Prices should increase again following the milling season due to tighter supplies.

In 2008, several state owned companies decided to distribute their plantation white sugar in cooperation with Bulog, the national logistics agency, in order to stabilize the price. Bulog has storage facilities throughout Indonesia and expertise in distributing sugar prior to the 1998 financial crisis when Bulog was the only agency given authorization to distribute and to stabilize the prices of rice, sugar, wheat flour, beef, corn, soybean, peanut, mung bean, eggs, and poultry meat. A total of 255,000 MT of plantation white sugar was distributed through Bulog in 2008. Currently, GOI is considering a new concept for Bulog to continue distributing plantation white sugar in MY 2009/10.

Note: Exchange rate is Rp. 11,561/US\$ 1 as of April 7, 2009.