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Indonesia

Cotton and Products Annual

Indonesia Cotton and Products Annual Report 2016

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Report Highlights:

The continued depreciation of the Indonesian rupiah against the U.S. dollar, depressed consumer purchasing power, and global economic slowdown is lowering demand for Indonesian textiles and textile products. Indonesian cotton consumption is thus expected to fall in MY2015/16 to 2.64 million bales, compared to the previous estimate of 3.15 million bales. Post also reduces its estimate of MY 2015/16 Indonesian cotton imports to 2.5 million bales from the previous estimate of 3.1 million bales. MY 2016/17 Indonesian cotton imports are forecast to increase modestly to 2.75 million bales as the result of Government of Indonesia (GOI) regulations that minimize import costs.

Situation and Outlook

Executive Summary

The Indonesian rupiah remains weak, valued at Rp. 13,367/\$1 on March 3, 2016. Indonesian cotton spinners, however, have made futures contracts minimizing Rupiah depreciation in marketing year (MY) 2014/15. Global economic slowdown has led to declining exports of Indonesian textiles and textile products to major destination countries. At the same time, the weak rupiah has depressed consumer purchasing power, resulting in lower domestic sales of textile and textile products, thus reducing MY 2015/16 cotton imports. The Indonesian Textile Association (API, *Asosiasi Pertekstilan Indonesia*) reported that the value of Indonesian textile exports during calendar year 2015 declined by 3.23 percent. This includes a decrease of cotton fabric exports from 188,000 MT in CY 2014 to 138,000 MT during the period of January to November 2015. Japan, Belgium, Italy, and the United States are Indonesia's major export destinations for cotton fabric.

Production

Indonesia produces 0.3 percent of its total domestic cotton demand, with official reports indicating that production has decreased at an average of 24.79 percent annually since 2008. Cotton production declines are due to high production costs and agronomic risks such as excessive rainfall or extreme drought (as characterized by the El Nino weather pattern occurring in 2015/16). Farmers also earn lower profit margins from cotton compared to other secondary crops such as corn or mung bean. Given these concerns, local cotton production has been marginalized to intercropping systems and less productive lands primarily in South Sulawesi, East Java, Central Java, Yogyakarta, East Nusa Tenggara, West Nusa Tenggara, and Bali. Production declines are also attributable to the conversion of land to nonagricultural uses and limited access to high yielding varieties and more efficient cultivation practices. As a result, Post estimates that cotton production will decline to 9,000 bales in MY 2015/16 compared to 14,000 bales in MY 2014/15. Assuming that the same problems will continue to hinder cotton cultivation, Indonesian cotton production is forecast to remain stagnant in MY 2016/17.

Consumption

The Indonesian spinning sector produces spun yarn and sewing thread. The sector is expanding, having grown from 251 companies in CY 2012 to 285 companies in CY 2015. In CY 2013, Indonesian spinning mills ran at 86.2 percent capacity, with a total of 10.967 million spindles and 179,385 rotors, compared to 10.21 million spindles and 175,513 rotors in CY 2012. In 2013, industry sources reported that the Indonesian spinning industry consumed a total of 2.6 MMT of fiber as raw material annually, consisting of cotton (26 percent), man-made fiber (73 percent), and others (1.1 %). Indonesia exports approximately 30 percent of its yarn production.

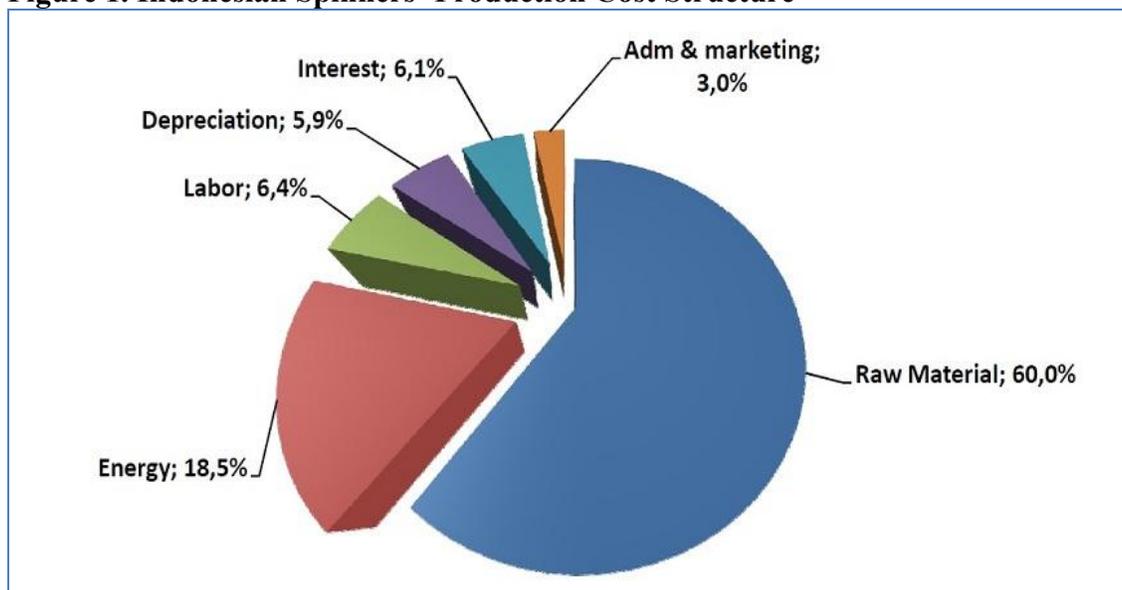
In MY 2014/15 Indonesia increased imports of cotton by approximately 12 percent over MY 2013/14. Despite robust consumption-driven import demand, post expects consumption declines in 2015/16 and 2016/17 due to the following reasons:

- Global economic conditions lowered the price of crude oil, drawing down polyester and synthetic fiber prices. Industry reports that the current price of polyester stands at approximately \$0.85/kg with only two percent waste, while the price of middling grade cotton stands at

approximately \$1.7/kg with 10 percent waste on carded cotton yarn production and 23 percent waste on combed cotton yarn production. Indonesian spinners rely heavily on imported cotton. Unlike manmade fiber spinners, (who generally hold one week's stocks on hand), cotton spinners must hold a minimum of 2 month's stocks plus one month "on-the-way" shipment stocks. Cotton therefore requires more capital compared to using manmade fibers.

- Indonesia's currency remains weak, with exchange rates reaching Rp. 13,367/\$1 as of March 3, 2016 compared to Rp. 13,022/\$1 on March 5, 2015. The weak rupiah led to depressed consumer purchasing power, while the global economic slowdown reduced export demand for Indonesian textile products. As a result, Indonesian mills have faced an over-supply scenario since the middle of 2015.
- Indonesian textile and textile products are facing fierce competition from illegal imports of yarn, fabrics, garment, and other textile products which are sold in domestic market at cheaper prices.
- Faced with these difficult conditions, some textile manufacturers are struggling while others have closed down.

Figure 1. Indonesian Spinners' Production Cost Structure



Source: Indonesian Textile Association

Considering the abovementioned challenges, Post estimates that MY 2015/16 Indonesian cotton consumption will decrease to 2.64 million bales from the previous estimate of 3.15 million bales. Despite the weak exchange rate and depressed consumer purchasing power, efforts to reduce illegal imports of textile and textile products, as well as the GOI's intention to establish a bonded center that will minimize cotton import costs, MY 2016/17 Indonesian cotton consumption is expected to slightly increase to 2.7 million bales.

Stocks

Despite declining cotton prices, rising storage costs prevent Indonesian spinners from maintaining large inventories. As a result, spinners prefer to source raw materials on an as-needed basis. Therefore, Post estimates MY 2015/16 Indonesian ending stocks will slightly decline from 552,000 bales in MY

2014/15 to 414,000 bales, tracking with expected lower imports and consumption. MY2016/17 ending stock is expected to marginally rebound to 428,000 MT in line with the expected slight increase in cotton imports.

Marketing

Large, export-oriented manufacturers with stronger cash flows are expanding their capacity through the procurement and installment of new machinery. Unlike smaller mills using 20 year old technology, these mills are using newer and more efficient cotton spinning technology. However, further rupiah depreciation, combined with higher labor and electricity costs, depressed consumer purchasing power, and slow demand from major export destinations in ASEAN and Europe will reduce Indonesian cotton imports in MY 2015/16. Spinners must also utilize stocks built during the surge of cotton imports in MY2014/15 prior to making additional imports.

Based on import data and the above-mentioned factors, Post estimates MY 2015/16 Indonesian cotton imports at 2.5 million bales, compared 3.345 million bales in MY 2014/15. Post forecasts MY 2016/17 Indonesian cotton imports at 2.7 million bales based on the anticipated implementation of the GOI's trade deregulation, which is expected to reduce import costs. .

During the August - December 2015 period, Brazilian origin cotton led exports to Indonesia, accounting for 44 percent of the market. The United States, Australia, and India followed with 21, 13, and 8.2 percent market shares respectively. Despite quality issues, Indian, Brazilian, and African cotton are considered adequate by Indonesian industry standards. Indonesia's primary yarn export destinations during calendar year 2015 were China (74 percent), Japan (12 percent), and South Korea (5 percent).

Policy

Indonesian cotton spinners are heavily reliant on imports. Raw materials make up approximately 60 percent of cotton yarn's production cost. In order to improve the efficiency and effectiveness of cotton imports into Indonesia, the Indonesian Custom and Excise Office held socialization on the establishment of the Indonesian Logistics Bonded Center (*PLB, Pusat Logistik Berikat*) in September 2015. The Indonesian Logistics Bonded Center will serve as a temporary a storage center for goods before they are re-exported or sent to areas outside of the logistics bonded center. The advantage of the logistic bonded center for cotton imports is that imported cotton which is currently transshipped and temporarily stored in Kuala Lumpur or Singapore will be able to be imported directly to Indonesia. The cotton will remain property of the supplier, allowing spinners to buy as needed directly from the logistic bonded center. Cotton imported and temporarily stored at the logistic bonded center will be exempted from any import related taxes, including value added tax, sales tax on luxury goods, excise tax, and income tax. The imported cotton will also enjoy suspensions of import duties.

Following the socialization, the Indonesian Ministry of Finance issued a regulation on the logistic bonded center. The regulation is effective as of December 31, 2015, and the first center opened in March 2016. The Indonesian textile industry including spinners is supportive of this new regulation as it will simplify the procedures and reduce costs to import cotton.

I. Statistical Tables

TABLE 1. PSD COTTON (HS CODE 5201) IN BALES

Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug 2014		May 2015		May 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	7	7	0	4	0	4
Area Harvested	6	6	3	3	0	3
Beginning Stocks	500	500	597	552	0	414
Production	9	9	5	5	0	5
Imports	3345	3345	3100	2500	0	2750
MY Imports from U.S.	0	211	0	310	0	300
Total Supply	3854	3859	3702	3061	0	3713
Exports	7	7	7	7	0	5
Use	3250	3250	3150	2600	0	2700
Loss	0	50	0	40	0	40
Total Dom. Cons.	3250	3300	3150	2640	0	2740
Ending Stocks	597	552	545	414	0	428
Total Distribution	3854	3859	3702	3061	0	3173
Stock to Use %	18.33	16.98	17.26	15.92	0	15.85
Yield	327	327	363	363	0	363

Note: last column of each marketing year is not official USDA data.

TABLE 2. PSD COTTON (HS CODE 5201) IN MT

Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug 2014		May 2015		May 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	7	7	0	4	0	4
Area Harvested	6	6	3	3	0	3
Beginning Stocks	108,863	108,863	129,983	120,185	0	90,139
Production	1,960	1,960	1,089	1,089	0	1,089

Imports	728,295	728,295	674,952	544,316	0	598,748
MY Imports from U.S.	-	45,940	-	67,495	0	65,318
Total Supply	839,118	840,206	806,023	666,461	0	808,418
Exports	1,524	1,524	1,524	1,524	0	1,089
Use	707,611	707,611	685,838	566,089	0	587,861
Loss	-	10,886	-	8,709	0	8,709
Total Dom. Cons.	707,611	718,497	685,838	574,798	0	596,570
Ending Stocks	129,983	120,185	118,661	90,139	0	93,187
Total Distribution	839,118	840,206	806,023	666,461	0	690,846
Stock to Use %	18.33	16.98	17.26	15.92	0	15.85
Yield	327	327	363	363	0	363

Note: Last column of each marketing year is not official USDA data.

TRADE MATRIXES

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2013 - 2015)

Country	Indonesia					
Commodity	Cotton					
Time Period	Aug - Jul	Units:	1,000 MT	Units:	1,000 MT	
Imports for:	2013/14	Imports for:	2014/15	Imports for:	2015/16*	
U.S.	152	U.S.	64	U.S.	28	

Others		Others		Others	
Brazil	115	Brazil	129	Brazil	59
Australia	79	Australia	38	Australia	18
India	56	Greece	18	India	11
Cote d'Ivoire	34	Argentina	17	China	6
Mali	25	Cote d'Ivoire	8	Greece	5
Burkina Faso	21	India	6	Cote d'Ivoire	4
Greece	16	Spain	4		
Tanzania	16	China	2		
Pakistan	15				
Mozambique	13				
Argentina	12				
Malaysia	7				
Spain	6				
South Africa	6				
Uganda	4				
Paraguay	1				
Senegal	1				
Total for Others	427	Total for Others	222	Total for Others	103
Others not Listed	80	Others not Listed	2	Others not Listed	3
Grand Total	659	Grand Total	288	Grand Total	134

Source: Global Trade Atlas.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2013 – 2015)

Export Trade Matrix

Country	Indonesia		
Commodity	Cotton, HS Code 5201		
Time Period	Aug-Jul	Units:	Units: 1,000 MT
Exports for:	2013/14	2014/15	2015/16
U.S.	0 U.S.	0 U.S.	0

Others		Others		Others	
Vietnam	173	Sri Lanka	300	China	12
Sri Lanka	148	Vietnam	157	Taiwan	9
Taiwan	132	Taiwan	32	Vietnam	5
		Malaysia	24	Thailand	4
		Saudi Arabia	21	Japan	4
				Netherlands	2
				Hong Kong	2
				India	1
				Russia	1
				Philippines	1
Total for Others	453		534		41
Others not Listed	0		2		3
Grand Total	453		536		44

Source: Global Trade Atlas.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2013 – 2015)

Import Trade Matrix

Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2014		2015*
U.S.	0	U.S.	0
Others		Others	

India	9	India	9
South Korea	4	China	2
China	3	South Korea	1
Hong Kong	1	Hong Kong	1

Total for Others 17 Total for Others 13

Others not Listed 1 Others not Listed 1

Grand Total 18 Grand Total 14

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2013 – 2014)

Export Trade Matrix

Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2014		2015*
U.S.	1		
Others		Others	

China	93	China	101
Japan	21	Japan	17
South Korea	7	South Korea	7
Hong Kong	6	Hong Kong	4
Malaysia	2	Sri Lanka	1
Germany	1	Germany	1
Guatemala	1	Guatemala	1
Turkey	1	Turkey	1

Total for Others 132 Total for Others 133
Others not Listed 4 Others not Listed 4
Grand Total 137 Grand Total 137
Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2013 - 2014)

Import Trade Matrix

Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan-Dec	Time Period	Jan - Nov
Exports for:	2014	Exports for:	2015
U.S.	2	U.S.	

Others		Others	
China	229	China	191
Korea, Rep. of	78	Korea, Rep. of	56
Hong Kong	61	Hong Kong	53
Pakistan	12	Pakistan	9
Malaysia	10	Taiwan	9
Vietnam	9	India	9
Japan	8	Vietnam	5
Taiwan	8	Japan	2
India	7	Turkey	2
Italy	2	Thailand	2
Macau	2	Malaysia	1
Turkey	2		
Thailand	1		
Belgium	1		

Total for Others 430 Total for Others 339
Others not Listed 5 Others not Listed 3
Grand Total 437 Grand Total 342

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2013 - 2014)

Export Trade Matrix

Country	Indonesia	
Commodity	Fabric	
Units:	1,000 MT	
Time Period	Jan-Dec	Jan-Nov
	2014	2015
U.S.	13	14

Others		Others	
Japan	56	Japan	36
Belgium	16	Belgium	17
Italy	13	Italy	6
Korea Rep. of	10	Netherlands	6
Germany, Fed. Rep.	10	Germany, Fed. Rep.	5
Turkey	8	Israel	5
Netherlands	7	China	5
Cambodia	7	Turkey	4
Vietnam	7	Cambodia	4
Bangladesh	6	Vietnam	4
Israel	4	Bangladesh	4
China	3	Portugal	4
Portugal	3	Korea Rep. of	3
Brazil	3	Thailand	3
Thailand	2	United Arab Emirates	2
United Arab Emirates	2	Malaysia	2
Malaysia	2	Spain	2
Spain	2	Brazil	1
Canada	2	Canada	1
Singapore	2	Singapore	1
Hong Kong	1	Hong Kong	1
Philippines	1	Philippines	1

Total for Others 167 Total for Others 117

Others not Listed 8 Others not Listed 7

Grand Total 188 Grand Total 138

Source: Global Trade Atlas.

Note: Exchange rate is Rp. 13,367/\$ 1, as of March 3, 2016.

Commodities:

Select