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Indonesia

Cotton and Products Annual

Indonesia Cotton and Products Annual Report 2013

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Report Highlights:

Some Indonesian cotton spinners are still recovering from a challenging 2011 calendar year (CY) with regard to the international cotton market. However, the Indonesian textile industry is generally recovering from that period of price volatility. While several Indonesian spinners with pending contracts have been added to the default list, a number of large mills are expanding their operations.

For marketing year (MY) 2012/13, Post expects that Indonesian cotton imports will slightly increase to 2.1 million bales, over 1.975 million bales in MY 2011/12. In MY 2012/13, the market share for U.S. cotton in Indonesia is estimated to decline, primarily due to strong competition from Brazil and Australia.

Executive Summary:

The Indonesian Ministry of Industry reported that in CY 2012, Indonesia was the world's 10th largest textile exporter, with total exports valued at \$12.5.1 billion. However, volatile international cotton prices during CY 2011 slowed Indonesian demand for cotton imports. Some small cotton spinners are currently closing down their operations. Conversely, some larger mills are expanding. Although there is a general slowdown in demand for Indonesian textiles and textile products in the United States and Europe, Indonesian yarn exports to China for the period of January – November 2012 have increased by 39 percent compared to the same period in 2011. As a result, Post estimated MY 2012/13 Indonesian cotton imports will increase to 2.1 million bales. In MY 2011/12, Brazil overtook the United States as the largest supplier of cotton to Indonesia.

Commodities:

Select

Production:

Indonesia produces only 0.3 percent of its total domestic demand for cotton. Indonesian cotton producers receive little support from the Government of Indonesia (GOI) and cotton farmers generally find greater economic incentives to grow other crops. Increased land conversion to nonagricultural uses also reduces the area dedicated to cotton. However, favorable weather during 2012 provided opportunities for a slight expansion of cotton area. Most of the cotton crops are grown on marginal land on South Sulawesi, East Java, West Nusa Tenggara, and Central Java. Farmers have a very limited access to high yielding varieties and proper cultivation practice due to financial constraints. Therefore, Post estimates that in MY 2012/13 and MY 2013/14, Indonesia's cotton production will remain stagnant at 30,000 as in MY 2011/12.

Consumption:

According to a local industry publication, the Indonesian textile and textile products sector employs about 1.5 million workers, which equated to just over 10 percent of the total Indonesian manufacturing workforce in 2012. The Indonesian textile industry also plays a significant and strategic role in the overall Indonesian macro-economy. In 2011 there were a total of 2,880 textile and textile production companies in the country with a total investment of Rp. 151.77 trillion (\$ 15.6 billion). The Indonesian National Statistics Agency (*Badan Pusat Statistik, BPS*) estimates that textile products contributed almost 1.56 percent toward total Indonesian national gross domestic product (GDP) in 2012. According to data from BPS, during the period of January to December 2012, the Indonesian textile and related product exports amounted to 6.58 percent of total Indonesian national exports. In CY 2011, Indonesia exported about 35 percent of its textile and textile products to the United States, 19 percent to the European Union, 5.2 percent to other ASEAN countries, and 7.5 percent to Japan.

According to industry publications, the volume of Indonesia's textile and related product exports in CY 2011 declined by 1.4 percent to 1.94 million tons over CY 2010. However, the actual value increased by 18.1 percent to \$13.3 billion. Indonesian textile industry grew by 5 percent in 2012 compared to

2011 after experiencing a contraction in 2007 and 2008. However, in 2013 the Indonesian Textile Association (*Asosiasi Pertekstilan Indonesia, API*) estimates that Indonesian textile and related products exports will decline by 6 percent due to contracting demand in Europe and the United States for Indonesian textiles.

In the domestic market, Indonesian textiles and related products face tough competition from imported products, but domestic demand for local textiles remain strong. In CY 2011, Indonesia imported approximately 1.68 million tons of textile products, valued at \$8.43 billion. China (29.6 percent) and the Republic of Korea (19 percent) account for the largest suppliers of textiles to Indonesia. Chinese products are generally cheaper than domestically produced textiles and are considered comparable in terms of quality.

In CY 2011, Indonesian textile mills ran at about 70 - 80 percent capacity - with a total of 9.2 million spindles and 117,256 rotors. Several fundamental problems hampered the growth of the industry. The majority of the machines used by the Indonesian industry are at least 20 years old. Since 2007, GOI has launched the industry revitalization program. In 2012 a total of 149 textile companies registered to join this program and a total of IDR 147.52 billion of assisting funding has been distributed. However, high interest rates make it more difficult for textile businesses to get commercial bank loans.

The fluctuating prices of cotton in 2011 still has continued impacts on small and medium sized cotton spinners. A number of Indonesian spinners with pending contracts have been added to the default list. The Indonesian Cotton Spinners Association reported that currently there are 5 to 6 companies on the default list and the default list is growing. Some smaller mills have been forced to close operations. API also reports that cotton trading is normally conducted between Indonesian spinners and cotton agents who are located outside of Indonesia. The lack of local representation and/or offices makes it more difficult to settle defaults. Conversely, some large mills, as well as those not on the default list are in a better position to expand operation. To avoid the contract default problems due to price volatility from recurring in the future, currently there are some local large mills who buy extra cotton to be sold to the small mills. However, there are some concerns that in the future these large mills will act as agents and will bring cotton prices higher due to longer supply chain. Some of the large cotton agents also tried to avoid problems from highly fluctuating price of cotton by having stocks stored within the region.

The United Nations International Labor Organization (ILO) projected that the economic growth in Southeast Asia and the Pacific reached 5.2 percent in 2012, following 4.6 percent growth in 2011.

Regional growth is supported by Indonesia, which is Southeast Asia's largest economy. Indonesian GDP growth has been both robust and steady in recent years; between the first quarter of 2011 and the second quarter of 2012, year-on-year quarterly GDP growth has ranged between 6.3 percent and 6.5 percent. The ILO, which bases its data on the Conference Board Total Economy Database January 2012, ranks Indonesia third in growth in output per worker in selected Asian countries, following China and Vietnam.

As of early October 2012, the GOI increased 2013 provincial minimum wages. The new minimum wages are effective per January 7, 2013 and are noted below.

Provincial Minimum Wage 2013 (In IDR)

No.	Province	Min. Wage 2012	Min. Wage 2013	Percent of Increase	Effective Date in 2012
1.	Nanggroe Aceh Darussalam	1,400,000	1,550,000	10.71	Oct.5
2.	North Sumatera	1,200,000	1,375,000	14.58	Nov. 29
3.	West Sumatera	1,150,000	1,350,000	17.39	Nov. 6
4.	Jambi	1,142,500	1,300,000	13.79	Nov. 5
5.	South Sumatera	1,195,220	1,350,000	12.95	Nov. 9
6.	Riau	1,238,000	1,400,000	13.09	Nov. 12
7.	Bengkulu	930,000	1,200,000	29.03	Oct. 12
8.	Riau Islands	1,015,000	1,365,087	34.49	Nov. 1
9.	Lampung	975,000	1,150,000	17.95	Dec. 28
10.	Banten	1,042,000	1,170,000	12.28	Nov. 9
11.	West Java	780,000	850,000	8.97	Nov. 21
12.	Central Java	765,000	830,000	8.50	Nov. 12
13.	Yogyakarta	892,660	947,114	6.10	Nov. 20
14.	East Java	745,000	866,250	16.28	Nov. 24
15.	Jakarta	1,529,150	2,200,000	43.87	Nov. 20
16.	Bali	967,500	1,181,000	22.07	Nov. 1
17.	West Nusa Tenggara	1,000,000	1,100,000	10.00	Dec. 5
18.	East Nusa Tenggara	925,000	1,010,000	9.19	Nov. 12
19.	West Kalimantan	900,000	1,060,000	17.78	Oct. 24
20.	Central Kalimantan	1,327,459	1,553,127	17.00	Oct. 12
21.	South Kalimantan	1,225,000	1,337,500	9.18	Oct. 22
22.	East Kalimanta	1,177,000	1,752,000	48.86	Nov. 1
23.	South Sulawesi	1,200,000	1,440,000	20.00	Oct. 30
24.	South East Sulawesi	1,032,300	1,125,207	9.00	Nov. 1
25.	Gorontalo	837,500	1,175,000	40.30	Nov. 26
26.	West Sulawesi	1,127,000	1,165,000	3.37	Nov. 28
27.	Central Sulawesi	885,000	995,000	12.43	Nov. 26
28.	North Sulawesi	1,250,000	1,550,000	24.00	Nov. 29
29.	Maluku	975,000	1,275,000	30.77	Nov. 23
30.	North Maluku	960,498	1,200,622	25.00	Dec. 18
31.	Papua	1,585,000	1,710,000	7.89	Oct. 10
32.	West Papua	1,450,000	1,720,000	18.62	Dec. 5
33.	Bangka Belitung	1,110,000	1,265,000	13.96	Oct. 17
	Average	1,088,902.64	1,288,423.64	18.32	

Source: Various, processed by FAS/Jakarta.

The minimum wage increases are creating challenges for the Indonesian textile industry. API reported that the wage increases have made it difficult for the textile industry to absorb another 11,000 new workers as initially expected. The wage increases have forced some textile manufactures to relocate their factories from Jakarta to West Java, Central Java or East Java, as these areas have lower minimum

wages. Some textile manufacturers also unsuccessfully pushed the GOI to postpone the change in the minimum wage. Other textile manufacturers who have reached agreements with their labor unions to increase the wages gradually are unable to do so as it will violate the regulation.

For manufacturing process, the Indonesian textile industry sources about 70 percent of its energy needs from the National Electricity Company (*Perusahaan Listrik Negara*, PLN). The balance is met by self-owned generators, and gas and/or coal powered industrial equipment. Compared to other Asian countries, Indonesian electricity tariffs are relatively high. The electricity supply is also inconsistent, which can lead to production slow-downs and/or stoppages.

Comparison of Electricity Tariff in Selected Asian Countries

Country	U.S. \$ cents/kWH
Pakistan	2 to 15.07
Vietnam	6.20
Malaysia	7.42
Thailand	4.46 to 9.79
Indonesia	8.75

Source: various, processed by FAS/Jakarta

The PLN usually increases the electricity tariff which adds additional expenses to the textile industry every year. In 2012 the GOI has decided to postpone any electricity tariff hikes to 2013. In early January 2013, the PLN announced the increase of electricity tariff and the decision to increase it every quarter. The electricity tariff increase for industrial sector varies as per the following table:

2013 Industrial Electricity Tariff Plan Increase (in IDR per Kilo Watt Hour)

Power Categories	Initial Tariff	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
450 VA	476	No changes	No changes	No changes	No changes
900 VA	585	No changes	No changes	No changes	No changes
1,300 VA	765	803	843	886	930
3,500 VA – 14 KVA	915	961	1,009	1,059	1,112
14 KVA – 200 KVA	870	914	959	1,007	1,057
>200 KVA	731	757	783	823	864
>30,000 KVA	605	629	654	689	732

Source: National Electricity Company.

Note: VA = Volt Ampere

KVA = Kilo Volt Ampere

The Indonesian textile industry must also cope with problems related to the distribution of textiles and textile products. Indonesian port fees are considerably higher than other Asian countries. GOI also requires that these fees be paid in U.S. dollars rather than in the local currency.

Terminal Handling Charge (THC) for 20 feet containers in ASEAN countries

Country	THC – 20” in US\$
Indonesia	95
Malaysia	107
Singapore	172

Thailand	89
Vietnam	85

Source: various, processed by FAS/Jakarta.

Road conditions for ground transportation to and from Indonesian ports are mostly bad, highly congested, and subject to traffic. This creates inefficiency and high transportation costs. The textile industry reports that the higher minimum wage, electricity tariffs, and high terminal handling charge will increase the price of textile and textile products by 16 percent and will lower the competitiveness of Indonesian textile products in international market. It will eventually decrease Indonesian export of textile and textile products by six percent in CY 2013. However, textile industry reported that the decline in exports will be more than offset by the selling of Indonesian textile and textile products in domestic market that is estimated to increase by five percent despite facing fierce competition with imported products.

As a result of the aforementioned situation, Post estimates that MY 2012/13 Indonesian cotton consumption will slightly increase to 2.1 million bales compared to 1.95 million bales in previous marketing year of MY 2011/12. Indonesian cotton consumption is forecast to continue to increase to 2.2 million bales partly due to stronger demand for cotton shirts for political parties campaign in the upcoming 2014 general election.

Stocks:

In line with the increased cotton imports, Post estimates that MY 2012/13 Indonesian ending stocks of cotton will increase slightly to 499,000 bales. Post expects that the increase of ending stocks to continue to 519,000 bales in MY 2013/14 due to increase of imports in that MY.

Policy:

The Indonesian industry's outdated textile machines amount to lower productivity levels, and increased energy and power usage. In 2007, the Indonesian Ministry of Industry launched a textile industry revitalization program under Minister of Industry Decree No. 141/M-IND/PER/10/2009 (Please refer to GAIN Report ID1112). The regulation was amended by the issuance of Ministry of Industry Decree number 15/M-IND/PER/2/2012. This new regulation, aptly titled "Machines Restructuring Program for Textile and Textile Products and Leather and Leather Products Small and Medium Enterprises", reduced the percentage of reimbursement provided to any textile company that purchased new textile machines to 10 percent. Additionally, if the new machines are domestically produced, the program provides a subsidy of up to a 25 percent of the cost of the machines. The reimbursement provided is has been increased , but is not allowed to exceed Indonesian Rupiah (IDR) 3 billion (\$ 326,513) per company annually.

The Realization of Textiles Machines Restructuring Program, 2007 - 2011

Type of Industry	Unit	Year					
		2007	2008	2009	2010	2011	Total
Spinning	Spinning Machine	372,764	550,380	93,192	185,722	415,104	1,617,212
Weaving	Weaving Machine	453	725	1,958	1,481	1,286	5,903
Knitting	Knitting Machine	129	271	455	676	213	1,744
Finishing	Set	8	12	13	15	5	53

Garment	Set	4,848	11,490	17,502	13,667	8,422	55,929
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Source: Ministry of Industry 2012.

Marketing:

In CY 2009, the Ministry of Industry reported that 2,853 textile companies broken into subsectors of consisting of: 1. fiber (30 companies), 2. yarn (225 companies), 3. fabric (1,067 companies), 4. garment (996 companies), and 5. others (535 companies). The textile industry representatives report the following factors affect the current conditions of Indonesian spinners:

1. Some spinning mills still suffer from the high price contracts in 2011 that led to tight cash flows. However, there are some large manufacturers that expanded operations.
2. The flat trend of textile exports to major destination countries such as the United States, Europe, and other Asian countries.
3. Strong demand for Indonesian textile products in domestic market although competition with lower priced and quality imported textile and textile products.

Given the above-mentioned situation and referring to the data provided by the Global Trade Atlas and the Indonesian Cotton Spinners Association, Post estimates that Indonesian imports of cotton in MY 2012/13 will slightly increase to 2.1 million bales compared to 1.975 million bales in previous MY. Post forecasts that MY 2013/14 cotton import levels to continue increase to 2.2 million bales, assuming that some cotton spinners will recover from the impact of the fluctuating prices of cotton in 2011, an expected increase of 5-10 percent in domestic sales, stronger demand for cotton shirt in the face of the upcoming 2014 general election, and improving world economy that may increase demand of Indonesian textile and textile products in major exporting countries.

Some contracts default as a result from the cotton price volatility in 2011 has led to a declined share of U.S. cotton exports to Indonesia. According to the Global Trade Atlas, in MY 2011/12, Brazil overtook the United States as the leader in the market with a total market share of 31 percent, followed by Australia with 20 percent market share, and the United States with 16 percent market share. Despite high levels of contamination, the quality of cotton from India, Brazil, and African countries are considered adequate by Indonesian industry standards. During the period of January – November 2012, Indonesia exported most of its yarn to China (39 percent), Japan (24 percent), South Korea (9 percent), and Hong Kong (6 percent).

Production, Supply and Demand Data Statistics:

I. Statistical Tables

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

Cotton	Indonesia	2011/2012		2012/2013		2013/2014	
		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		0	0	0	0		0
Area Harvested		9	9	10	9		10
Beginning Stocks		444	444	479	479		499
Production		30	30	30	30		30

Imports	1,975	1,975	2,250	2,100		2,200
MY Imports from U.S.	0	332	0	270		260
Total Supply	2,449	2,449	2,759	2,609		2,729
Exports	20	20	20	10		10
Use	1,900	1,900	2,200	2,050		2,150
Loss	50	50	50	50		50
Total Dom. Cons.	1,950	1,950	2,250	2,100		2,200
Ending Stocks	479	479	489	499		519
Total Distribution	2,449	2,449	2,759	2,609		2,729
Stock to Use %	25	25	22	24		24
Yield	726.	726.	653.	726.		653.

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

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

Cotton Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	9	9	9	9		10
Beginning Stocks	96,659	96,659	104,278	104,278	0	108,632
Production	6,531	6,531	6,531	6,531	0	6,531
Imports	429,958	429,958	489,825	457,170	0	478,940
MY Imports from U.S.	0	72,276	0	58,779	0	56,602
Total Supply	533,147	533,147	600,634	567,979	0	594,103
Exports	4,354	4,354	4,354	2,177	0	2,177
Use	413,630	413,630	478,940	446,285	0	468,055
Loss	10,885	10,885	10,885	10,885	0	10,885

Total Dom. Cons.	424,515	424,515	489,825	457,170	0	478,940
Ending Stocks	104,278	104,278	106,455	108,632	0	112,986
Total Distribution	533,147	533,147	600,634	567,979	0	594,103
Stock to Use %	25	25	22	24		24
Yield	726.	157,997.	653.	157,997.		142,197.

Note: Last column of each Marketing Year is not official USDA data.

Author Defined:
TRADE MATRIXES

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2012 - 2013)

Import Trade Matrix

Country	Indonesia		
Commodity	Cotton		
Time Period	Aug - Jul	Units:	1,000 MT
Imports for:	2011/12	Imports for:	2012/13
U.S.	62	U.S.	23
Others		Others	
Brazil	131	Brazil	52

Australia	93	Australia	39
India	44	Mali	11
Pakistan	41	Tanzania	9
Greece	34	Burkina Faso	7
Argentina	19	Argentina	7
Tanzania	11	Nigeria	7
Cote d'Ivoire	10	Cote d'Ivoire	6
Burkina Faso	9	South Africa	6
Uganda	9	Zimbabwe	6
Nigeria	9	Mozambique	4
South Africa	8	Pakistan	4
Zimbabwe	7	Switzerland	3
Mali	7	India	2
Mozambique	6	Greece	2
Switzerland	4	Uganda	1
Malaysia	4		
Total for Others	446	Total for Others	166
Others not Listed	33	Others not Listed	23
Grand Total	541	Grand Total	212

Source: Global Trade Atlas.

Note: For MY 2012/13 only for Aug-Nov 2012.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2012 – 2013)

Export Trade Matrix

Country Commodity	Indonesia Cotton		Units:	1000 MT
	Aug-Jul	2011/12		
Exports for:				
U.S.	1		U.S.	0
Others			Others	
Japan	5		Japan	2
Belgium	2		Taiwan	1
Taiwan	2		Thailand	1
Netherlands	1			
Philippines	1			
Thailand	1			

Hong Kong	1		
China	1		
Russia	1		
Total for Others	15		4
Others not Listed	3		4
Grand Total	19		8

Source: Global Trade Atlas.

Note: For MY 2012/13 only for Aug-Nov 2012.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2011 – 2012)

Import Trade Matrix

Country

Commodity

Indonesia

Yarn

Time Period

Jan-Dec

Units:

1,000 MT

Exports for:

2011

2012

U.S.

U.S.

0

Others

Others

China	5	Vietnam	6
India	2	South Korea	4
Vietnam	2	China	4
Malaysia	2	India	4
Pakistan	2	Hong Kong	1
South Korea	1		
Taiwan	1		
Thailand	1		
Hong Kong	1		

Total for Others	17	Total for Others	19
Others not Listed	0	Others not Listed	2
Grand Total	17	Grand Total	21

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2011 – 2012)

Export Trade Matrix

Country Commodity	Indonesia Yarn		Units:	1,000 MT	
	Jan-Dec			2011	2012
Time Period					
Exports for:					
U.S.		1			1
Others			Others		
Japan	17		China		27
China	11		Japan		17
South Korea	8		South Korea		6
Bangladesh	4		Hong Kong		4
Hong Kong	3		Bangladesh		4
Srilanka	3		Srilanka		1
Vietnam	1		Taiwan		1
Malaysia	1		Turkey		1
Taiwan	1		Germany		1
Egypt	1				
Germany	1				
Philippines	1				

Total for Others	52	Total for Others	62
Others not Listed	7	Others not Listed	6
Grand Total	60	Grand Total	69

Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2011 - 2012)

Import Trade Matrix

Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan-Dec	Time Period	Jan-Nov
Exports for:	2011	Exports for:	2012
U.S.	0	U.S.	0
Others		Others	
China	271	China	197
Korea, Rep. of	100	Korea, Rep. of	76
Hong Kong	88	Hong Kong	59
Taiwan	18	Taiwan	12
Pakistan	13	Pakistan	10
India	12	India	15
Vietnam	9	Vietnam	8
Malaysia	5	Malaysia	2
Thailand	4	Thailand	1
Japan	3	Japan	3

Total for Others	523	Total for Others	383
Others not Listed	3	Others not Listed	8
Grand Total	526	Grand Total	391

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2011 - 2012)

Export Trade Matrix

Country

Commodity

Indonesia

Fabric

Units:

Time Period

1,000 MT

Jan-Dec

2011

Jan-Nov

2012

U.S.

U.S.

Others

Others

	2011		2012
Japan	59	Japan	40
Bangladesh	15	Belgium	12
Turkey	8	Italy	7
Vietnam	8	Bangladesh	6
Belgium	8	Turkey	5
China	6	Korea Rep. of	5
Germany, Fed. Rep.	6	China	4
Italy	6	Germany, Fed. Rep.	4
Thailand	5	Netherlands	4
Sri Lanka	4	Portugal	4
Netherlands	4	Israel	3
United Arab Emirates	3	Thailand	3
Canada	3	United Arab Emirates	3
Australia	3	Brazil	3
Taiwan	3	Sri Lanka	2
Brazil	3	Malaysia	2
Egypt	2	Canada	1
Portugal	2	Australia	1

South Africa	2	Taiwan	1
Hong Kong	1	South Africa	1
Malaysia	1	Hong Kong	1
Singapore	1	Singapore	1
Total for Others	153	Total for Others	113
Others not Listed	20	Others not Listed	18
Grand Total	187	Grand Total	143

Source: Global Trade Atlas.

Note: Exchange rate is Rp. 9,726/\$ 1, as of March 21, 2013.