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Indonesia

Cotton and Products Annual

Indonesia Cotton and Products Annual Report 2012

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Report Highlights:

International cotton price volatility throughout calendar year (CY) 2011 severely impacted Indonesian cotton spinners' capacity to import. For marketing year (MY) 2011/12, Post expects that Indonesian cotton imports will decline to 1.8 million bales, compared to 2.1 million bales in MY 2010/11. In MY 2011/12, the market share for U.S. cotton in Indonesia is also estimated to decline, primarily due to strong competition from Australia.

Executive Summary:

The Indonesian Ministry of Industry reported that in CY 2011, Indonesia was the world's 11th largest textile exporter, with total exports valued at \$10.1 billion. However, international cotton price volatility during CY 2011 led to an overall decline in Indonesian cotton imports. Concurrently, Indonesian yarn exports to China have decreased in MY 2011/12 due to lower Chinese demand. As a result, Post estimated MY 2011/12 Indonesian cotton imports to decline to 1.8 million bales. In MY 2010/11, the United States continues to be the largest supplier of cotton to Indonesia, despite fierce competition from Brazil, Australia and India.

Commodities:

Select

Production:

Indonesia produces only 0.5 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 2011 provided opportunities for a slight expansion of cotton area which led to an increase in Indonesian production. Post estimates that in MY 2011/12, Indonesia's cotton production will increase to 30,000 bales, up from 25,000 bales in MY 2010/11. South Sulawesi, East Java, West Nusa Tenggara, and Central Java are the main cotton producing areas in Indonesia.

Consumption:

According to a local industry publication, the Indonesian textile and textile products sectors employ about 1.4 million workers, which equated to just over 10 percent of the total Indonesian manufacturing workforce in 2011. The Indonesian textile industry also plays a significant and strategic role in the overall Indonesian macro-economy. In 2010 there were a total of 2,853 textile and textile production companies in the country with a total investment of Rp. 146 trillion (\$ 16 billion). According to the Indonesian National Statistics Agency (BPS) estimates that textile products contributed almost two percent toward total Indonesian national gross domestic product (GDP) in 2011. According to data from BPS, during the period of January to December 2011, the Indonesian textile and related product exports amounted to 6.6 percent of total Indonesian national exports. In CY 2010, Indonesia exported about 37 percent of its textile and textile products to the United States, 15 percent to the European Union, 5.2 percent to other ASEAN countries, and 5.6 percent to Japan.

According to industry publications, the volume of Indonesia's textile and related product exports in CY 2010 increased by 11.85 percent to 1.97 million tons over 2009. Perhaps even more significantly, the actual value increased by 21.17 percent to \$11.2 billion. Indonesian textile industry grew by 8.6 percent during the first nine months of 2011 after experiencing a contraction in 2007 and 2008. However, in 2012 the growth in textiles is not expected to remain as strong as during 2011. The Indonesian Textile

Association (*Asosiasi Pertekstilan Indonesia API*) estimates that local growth will only reach two percent, primarily due to contracting demand from major Indonesian textile export destination countries namely the European countries, China, and the United States.

In the domestic market, Indonesian textile and related products continue to face tough competition from imported products. In CY 2010, Indonesia imported approximately 1.5 million tons of textile products, valued at \$6.2 billion. China (27.3 percent) and the Republic of Korea (16 percent) account for the largest suppliers of textiles to Indonesia. Also, with the implementation of the second phase of the ASEAN - China Free Trade Agreement (ACFTA), the import duties of specific products under Normal Track 1, which include textiles and textile products, were reduced to zero percent. This became effective in January 2010, and has been advantageous for Chinese textiles. 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 7.85 million spindles and 110,000 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. A GOI industry revitalization program, launched in 2007, has assisted in upgrading only six percent of the textile machines currently in use. Furthermore, higher interest rates make it more difficult for textile businesses to get commercial bank loans.

International cotton prices have fluctuated broadly in 2011, which has impacted on small and medium sized cotton spinners. After seven months of consecutive rises, prices of cotton suddenly decreased in April 2011. Some Indonesian spinners panicked, as they had already contracted up to five month supply of cotton when prices were high. Concurrently, the sale price of yarn began to fall faster than the buying price of cotton, which is the raw material. The impacts of the sharp decline in cotton prices at that time are still being felt up to a year later. Many small scale Indonesian spinners are currently struggling to increase their working capital to continue operations. These same spinners are also experiencing significant cash flow problems. Current market conditions are forcing some spinners to make major cost reduction decisions, to include:

1. Switching their raw materials to synthetic fibers, or to cotton/synthetic blends as a cost saving measure.
2. Switching from producing course count yarn to high and/or fine count yarn as to reduce raw material expenses.
3. Switching to use lower quality raw materials.
4. Taking job orders from other manufacturers instead of producing for their own sales.
5. Reducing production levels, or
6. Closing down operations. Closing operation is becoming more common among the smaller mills with cash flow problems.

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. The PLN annually increases the electricity

tariff which adds additional expenses to the textile industry. For 2012, the GOI has decided to postpone any electricity tariff hikes to 2013. However, the GOI currently plans to decrease gasoline subsidies, which will lead to a 33.3 percent to Rp. 6,000 (\$ 0.65) price increase per liter as of April 1, 2012. The textile industry reports that the increased fuel prices will drag production costs up by approximately 10 percent, as well as increase transportation costs, and decrease the purchasing power of domestic consumers. It may lead to lower Indonesian textile and textile products competitiveness in both domestic and international market.

Comparison of Electricity Tariff in Asian Countries

Country	U.S. \$/kWH
Bangladesh	0.30
Republic Korea	0.60
Pakistan	0.66
Vietnam	0.70
Indonesia	0.80

Source: various, processed by Indonesian Textile Association (API)

The United Nations International Labor Organization (ILO) reported that the productivity of Indonesian workers ranked number 59 compared to Thailand (ranked 27), Korea (ranked 29), and China (ranked 31). Indonesian textile workers are still largely unskilled. The GOI requires importers to pay a 15 percent import duty on imported textile chemicals, which is considerably higher than other Asian countries. 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	88
Singapore	120
Thailand	63
Vietnam	70

Source: various, processed by API.

Road conditions for ground transportation to and from Indonesian ports are mostly bad, highly congested, and subject to traffic timing. This leads to inefficiency and high transportation cost. As a comparison, API calculates that transportation costs in Indonesia are about \$0.34/km/truck. Post understand through industry sources that transportation costs are significantly lower in other regional countries. As a result of the aforementioned situation, Post estimates that MY 2011/12 Indonesian cotton consumption will decrease to 1.86 million bales compared to 2.1 million bales in previous marketing year of MY 2010/11.

Stocks:

In line with the decreased cotton imports, Post estimates that MY 2011/12 Indonesian ending stocks of cotton will decrease slightly to 399,000 bales. Post expects that despite the increase of imports in MY 2012/13 stocks will likely to decline further to 322,000 bales. This is due to the estimated slight increase in consumption and loss in MY 2012/13.

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 now increased to 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

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). 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 flow.
2. The flat trend of textile exports to major destination countries such as the United States, Europe, and other Asian countries.
3. Tight competition with imported textile products in domestic market.

Given the above-mentioned situation, Post estimates that Indonesian imports of cotton in MY 2011/12 will decrease to 1.8 million bales, compared to 2.1 million bales in MY 2010/11. Post forecasts that MY 2012/13 cotton import levels to rebound to 1.9 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, and improving world economy that may increase demand of Indonesian textile and textile products in major exporting countries.

Despite facing stiff competition from Australian and African cotton suppliers, the United States remains the largest supplier of cotton to Indonesia. According to the Global Trade Atlas, in MY 2010/11 the United States held 30 percent market share, followed by Brazil (17 percent), Australia (14 percent), and India (6 percent). Despite high levels of contamination, the quality of cotton from India, Brazil, and African countries are considered adequate by Indonesian industry standards. Post estimates that in MY 2012/13 the United States will slightly lose its market share given the projected jump in Australia's cotton production.

Production, Supply and Demand Data Statistics:

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

Cotton Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	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	439	439	444	444		399
Production	25	25	25	30		30
Imports	2,100	2,100	1,950	1,800		1,900
MY Imports from U.S.	0	902	0	540		600
Total Supply	2,564	2,564	2,419	2,274		2,329
Exports	20	20	20	15		17
Use	2,050	2,050	1,950	1,820		1,940
Loss	50	50	50	40		50
Total Dom. Cons.	2,100	2,100	2,000	1,860		1,990
Ending Stocks	444	444	399	399		322
Total Distribution	2,564	2,564	2,419	2,274		2,329
Stock to Use %	21	21	20	22		16
Yield	605.	605.	605.	726.		653.

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

TABLE 2. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN MT

Cotton Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	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	95,570	95,570	96,659	96,659	0	86,862
Production	5,443	5,443	5,443	6,531	0	6,531
Imports	457,170	457,170	424,515	391,860	0	413,630

MY Imports from U.S.	0	196,365	0	117,558	0	130,620
Total Supply	558,183	558,183	526,616	495,050	0	507,023
Exports	4,354	4,354	4,354	3,266	0	3,701
Use	446,285	446,285	424,515	396,214	0	422,338
Loss	10,885	10,885	10,885	8,708	0	10,885
Total Dom. Cons.	457,170	457,170	435,400	404,922	0	433,223
Ending Stocks	96,659	96,659	86,862	86,862	0	70,099
Total Distribution	558,183	558,183	526,616	495,050	0	507,023
Stock to Use %	21	21	20	22		16
Yield	605.	131,664.	605.	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 2010 - 2011)

Import Trade Matrix					
Country	Indonesia				
Commodity	Cotton				
Time Period	Aug - Jul	Units:	1,000 MT		

Imports for:	2009/10	Imports for:	2010/11		2011/12
U.S.	165	U.S.	207	U.S.	15
Others		Others		Others	
Brazil	111	Brazil	99	Brazil	51
Australia	84	Australia	83	Australia	43
India	70	India	36	India	23
Burkina Faso	29	Burkina Faso	20	Argentina	11
Tanzania	24	Mali	17	Greece	6
Pakistan	19	Benin	14	Cote d'Ivoire	5
Benin	14	Pakistan	12	Tanzania	5
Greece	13	Greece	10	Burkina Faso	4
Zimbabwe	12	Cote d'Ivoire	10	South Africa	4
Mali	12	Argentina	9	Zimbabwe	3
Mozambique	11	Tanzania	8	Mali	2
Cote d'Ivoire	11	Tanzania	8	Mozambique	2
Malawi	8	Mexico	6	Central African Rep.	1
Nigeria	6	Zimbabwe	5	Benin	1
Central African Rep.	5	South Africa	5	Togo	1
Togo	4	Mozambique	5	Uganda	1
Cameroon	4	Uganda	4	Cameroon	
Total for Others	437	Total for Others	351		163
Others not Listed	38	Others not Listed	26		20
Grand Total	640	Grand Total	584		198

Source: Global Trade Atlas.

Note: For MY 2011/12 only for Aug-Dec 2011.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2010 – 2011)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton				
Time Period	Aug-Jul	Units:	1000 MT		
Exports for:	2009/10		2010/11		2011/12
U.S.	3	U.S.	1	U.S.	0
Others		Others		Others	
Japan	5	Japan	5	Japan	2
Taiwan	4	Taiwan	4	Taiwan	1
Hong Kong	4	Belgium	3	China	1
Germany	2	Russia	2	Belgium	1

Russia	2	China	2		
Vietnam	1	Hong Kong	1		
Belgium	1	Germany	1		
Philippines	1	Philippines	1		
Thailand	1	Italy	1		
Italy	1	Vietnam	1		
China	1	Thailand	1		
Total for Others	23		22		5
Others not Listed	2		2		3
Grand Total	28		25		8

Source: Global Trade Atlas.

Note: For MY 2011/12 only for Aug-Dec 2011.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2010 – 2011)

Export Trade Matrix					
Country	Indonesia				
Commodity	Yarn				
Time Period	Jan-Dec	Units:	1,000 MT		
Exports for:	2009		2010		2011
U.S.	2		2	U.S.	1
Others		Others		Others	
South Korea	17	South Korea	18	South Korea	8
China	14	China	18	Japan	17
Japan	10	Japan	16	China	11
Sri Lanka	7	Sri Lanka	8	Bangladesh	4
Malaysia	6	Hong Kong	7	Sri Lanka	3
Hong Kong	4	Malaysia	3	Hong Kong	3

Egypt	3	Bangladesh	3	Malaysia	1
Philippines	2	Egypt	2	Turkey	1
Bangladesh	2	Turkey	2	Egypt	1
Turkey	2	Taiwan	2	Taiwan	1
Taiwan	1	Vietnam	1	Vietnam	1
Germany	1	Philippines	1	Germany	1
Total for Others	69	Total for Others	81		52
Others not Listed	13	Others not Listed	13		7
Grand Total	84	Grand Total	96		60

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2010 – 2011)

Import Trade Matrix					
Country	Indonesia				
Commodity	Yarn				
Time Period	Jan-Dec	Units:	1,000 MT		
Exports for:	2009		2010		2011
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
China	5	China	5	China	4
Taiwan	4	Taiwan	3	Malaysia	2
Pakistan	4	Malaysia	3	Taiwan	1
Thailand	3	India	3	India	2
Malaysia	3	Thailand	2	Vietnam	2
Hong Kong	1	Vietnam	2	Thailand	1
India	1	Pakistan	1	Pakistan	2
				South Korea	1

				Hong Kong	1
Total for Others	21	Total for Others	19		16
Others not Listed	1	Others not Listed	1		1
Grand Total	22	Grand Total	20		17

Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2010 - 2011)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan-Dec	Time Period	
Exports for:	2010	Exports for:	2011
U.S.	0	U.S.	0
Others		Others	
China	267	China	271
Korea, Rep. of	95	Korea, Rep. of	100
Hong Kong	89	Hong Kong	88
Taiwan	14	Taiwan	18
Vietnam	12	Pakistan	13
Malaysia	10	India	12
India	8	Vietnam	9
Pakistan	5	Malaysia	5
Japan	3	Thailand	4

Macau	3	Japan	3
Thailand	2		
Singapore	2		
Turkey	2		
Total for Others	512	Total for Others	523
Others not Listed	1	Others not Listed	3
Grand Total	513	Grand Total	526

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2010 - 2011)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT		
Time Period	Jan-Dec		Jan-Dec
Exports for:	2010		2011
U.S.	17	U.S.	14
Others		Others	
Japan	44	Japan	59
Italy	13	Bangladesh	15
Belgium	12	Turkey	8
Bangladesh	10	Vietnam	8
Turkey	10	Belgium	8
Germany, Fed. Rep.	10	China	6
Vietnam	10	Germany, Fed. Rep.	6
Korea, Rep. of	8	Italy	6
Sri Lanka	8	Thailand	5
China	6	Sri Lanka	4

Netherlands	6	Netherlands	4
Thailand	6	United Arab Emirates	3
Taiwan	5	Canada	3
Hong Kong	4	Australia	3
Philippines	4	Taiwan	3
Cambodia	4	Brazil	3
United Arab Emirates	4	Egypt	2
Portugal	4	Portugal	2
Brazil	4	South Africa	2
France	2	Hong Kong	1
Singapore	2	Malaysia	1
South Africa	2	Singapore	1
Malaysia	1		
Total for Others	179	Total for Others	153
Others not Listed	21	Others not Listed	20
Grand Total	217	Grand Total	187

Source: Global Trade Atlas.

TABLE 9. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2010 – 2011*

Value is in \$1,000 and volume is in 1,000 kg

Products	2010		2011	
	Value	Volume	Value	Volume
Manmade Fibers	456,422	263,072	644,506	294,206
Yarns	1,776,300	659,467	2,039,248	588,259
Fabrics	1,295,249	235,225	1,616,629	237,576
Garments	5,343,041	370,661	6,449,536	377,750
Other Textile Products	266,815	108,092	364,349	125,301
TOTAL	9,137,827	1,636,517	11,114,268	1,623,092

Source: BKPM, BPS, and MOI

Note *: Data of both years are as of November.

TABLE 10. TEXTILE AND TEXTILE PRODUCT IMPORTS IN 2010 – 2011*

Value is \$ 1,000 and Volume is in 1,000 kg

Products	2010		2011	
	Value	Volume	Value	Volume
Manmade Fibers	1,372,081	677,705	2,176,158	678,251
Yarns	327,380	95,972	452,426	118,021
Fabrics	2,672,917	374,696	3,910,698	462,100
Garments	232,559	34,138	273,577	29,595
Other Textile Products	324,202	77,571	336,596	74,706

TOTAL	4,929,139	1,260,082	7,149,455	1,362,673
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Source: BKPM, BPS, and MOI

Note *: Data of both years are as of November.

Note: Exchange rate is Rp. 9,188/\$ 1, as of March 28, 2012.