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Indonesia

Cotton and Products Annual

Cotton and Products Annual Report

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Report Highlights:

Higher prices of cotton in the international market and lower prices of yarn have resulted in slightly decreased Indonesian cotton consumption to 2.05 million bales. However, as global economies begin to emerge from the recent global downturn, it is likely that consumers will begin to purchase more textiles, leading to wider demand of cotton by Indonesian textile industry. Post predicts that this will lead to increased Indonesian cotton consumption, at 2.1 million bales in MY 2010/11.

Executive Summary:

Indonesian currently ranks as the eighth largest international clothing exporter, with a total value of (FAS: Use \$ sign, no need to spell out dollar as we can assume the audience is mainly American.) \$6.3 billion in calendar year (CY) 2008. Also in CY 2008, Indonesia was the 12th largest textile exporting country with a total value of \$3.7 billion. However, higher international cotton prices were reflected with lower Indonesian cotton imports in MY 2009/10 to 2.1 million bales. The United States continues to be the largest supplier of cotton to Indonesia, despite fierce competition from Australia and African countries.

Commodities:

Select

Production:

Indonesian cotton producers receive little attention from the government and farmers often prefer to grow other crops that provide higher revenue. In spite of these factors, Indonesian cotton production remained stable at approximately 30,000 bales in MY 2009/10.

South Sulawesi, East Java, West Nusa Tenggara, and Central Java are the main cotton producing areas. Also, Indonesia has made no significant effort to increase cotton production since the detection of *Bacillus thuringiensis* in cotton in South Sulawesi was halted in 2001.

Consumption:

The Indonesian textile and textile products industry employs about 1.3 million workers, which equates to 10.6 percent of the Indonesian total work force. The Indonesian textile and textile products industry also plays a significant and strategic role in the Indonesian macro-economy. According to data from Bank of Indonesia, during the period of Jan - Aug 2009, the Indonesian textile and textile products exports contributed 6.3 percent to total Indonesian national exports. In CY 2008, European Union, Japan, and the United States continued to be the major destinations for Indonesian textile and textile product exports. Although the export volume in CY 2008 declined by 5.6 percent to 1.8 million tons compared to CY 2007, the value of those same exports increased by 3.41 percent to \$10.4 billion.

In domestic market, Indonesian textile and textile products continue to face tough competition from similar, imported products. In CY 2008, Indonesia imported approximately 1.6 million tons of textile and textile products, valued at \$2 billion. The Republic of Korea and China are among the largest suppliers of textile and textile products to Indonesia. Also, with the implementation of the second

phase of the ASEAN - China Free Trade Agreement (ACFTA), signed in November 2002, the import duties of specific products under Normal Track 1, including textile and textile products, were reduced to zero percent. As this became effective on January 2010, it remains to be seen whether imports of textile and textile products from China will flood the domestic Indonesian market. Subsequently, this reduction in tariffs will likely reduce bilateral tensions between Indonesia and China over the illegal Chinese exports of textile and textile products. Post predicts that Chinese textile and textile products will gain market share in Indonesia, as the prices of Chinese textiles are cheaper than domestically produced textiles, with similar quality.

In CY 2008, Indonesian textile mills ran at about 70 - 80 percent of capacity, with 7.85 million spindles and 110,000 rotors. Several fundamental problems hampered the growth of the industry. Most of the textile machineries are more than 20 years old. GOI industry revitalization program launched since 2007 have revitalized only six percent of the textile machines. Furthermore, higher interest rates made it more difficult for the industry to get commercial bank loans. The higher prices of cotton and the lower prices of yarn in the international market made some spinners switch their raw materials to man-made fibers, or to blending cotton with man-made fiber to reduce production costs.

Compared to other Asian countries, Indonesian electricity tariffs are relatively high. In addition, inconsistent supply of electricity leads to high production cost.

Comparison of Electricity Tariff in Asian Countries

Country	USD/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. Importers must also pay 15 percent import duties to import textile chemicals, which is considerably higher than other Asian countries. Also, Indonesian port fees are considerably high compared to other Asian countries and the Government of Indonesian requires that these fees be paid in U.S. dollars rather than in local currency of Indonesian rupiahs.

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

Country	THC – 20” in USD
Indonesia	95
Malaysia	88
Singapore	120
Thailand	60
Vietnam	70

Source: various, processed by API.

As a result of the aforementioned situation, Post estimates that MY 2009/10 Indonesian cotton consumption will decrease to 2.05 million bales compared to 2.1 million bales in previous marketing year.

Stocks:

In line with the decreased cotton use and increased cotton imports, Post estimates that MY 2009/10 Indonesian ending stock of cotton will increase slightly to 264 thousand bales. However, stocks will likely decline in MY 2010/11, with ending stock at approximately 224 thousand bales.

Policy:

Indonesia's outdated textile machines lower productivity levels, and increase 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. This program, aptly titled Machines Restructuring Program for Textile and Textile Products and Leather and Leather Products Small and Medium Enterprises, provides a 25 percent reimbursement for any company that purchases new textile machines. If the new machines purchased are domestically produced, this program will provide up to a 30 percent reimbursement. The reimbursement provided should not exceed Rp. 2 billion (\$219,000) annually.

Marketing:

Indonesian cotton production meets only one percent of the total Indonesian textile industry's demand for cotton. Textile industry representative report that the current prices of cotton in the international market is much higher than the price of yarn. For May 2010, the price of cotton in New York Cotton Futures range from \$.78 to .82 per pound. While the prices for July 2010 shipments range from \$.80 to .83 per pound. Yet, many spinners are actively buying cotton and some spinners even contracted for next year's shipments. This leads to an estimated increase of 2.1 million bales of cotton that will be imported in MY 2009/10, and further increase to 2.2 million bales in MY 2010/11.

Despite facing stiff competition from Australian and African countries cotton suppliers, the United States remains the largest supplier of cotton to Indonesia. In MY 2008/09, the United States held 53.5 percent market share, followed by Brazil (17 percent), Australia (10 percent), and India (5 percent). In

spite of high levels contamination, the quality of cotton from India, Brazil, and African countries are considered adequate by Indonesian industry standards.

As a part of the Cotton USA mission to develop, maintain and expand overseas market for U.S. cotton fiber and manufactured cotton products, the Cotton Council International conducted a Cotton USA Buyers Tour to Indonesia in June 2009. The event was officially opened by the U.S. Ambassador for Indonesia, Cameron Hume. Approximately 31 buyers from 23 companies in 10 countries joined the event and met with 35 companies of highest quality cotton apparel and fabric suppliers from Indonesia, Thailand and Vietnam. CCI's group of buyers included several international agents, brands, and retailers such as Anvil, Arrow, Benetton, Debenhams, Max Mara, Marks and Spencer, GAP, IMAP, K&L Ruppert, Guess, J Crew, Jockey, and Lee Cooper.

Production, Supply and Demand Data Statistics:

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

Cotton Indonesia		2008		2009		2010	
		2008/2009		2009/2010		2010/2011	
		Market Year Begin: Jun 2008		Market Year Begin: Jun 2009		Market Year Begin: Jun 2010	
		USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	Jan Data
Area Planted	0	10	0	10		10	
Area Harvested	9	9	10	9		9	
Beginning Stocks	389	389	349	249		264	
Production	30	30	30	30		30	
Imports	2,000	2,000	2,075	2,100		2,200	
MY Imports from U.S.	0	1,070	0	1,040		1,100	

Total Supply	2,419		2,419	2,454		2,379			2,494
Exports	20		20	20		15			20
Use	2,000		2,100	2,050		2,050			2,100
Loss	50		50	50		50			50
Total Dom. Cons.	2,050		2,150	2,100		2,100			2,150
Ending Stocks	349		249	334		264			324
Total Distribution	2,419		2,419	2,454		2,379			2,494
Stock to Use %	17		12	16		13			15
Yield	726.		726.	653.		726.			726.
TS=TD			0			0			0

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	2008		2009		2010	
		2008/2009		2009/2010		2010/2011	
		Market Year Begin: Jun 2008		Market Year Begin: Jun 2009		Market Year Begin: Jun 2010	
		USDA Official Data	New Post	USDA Official Data	New Post	USDA Official Data	Jan
		Data	Data	Data	Data	Data	
Area Planted	0	10	0	10		10	
Area Harvested	9	9	10	9		9	
Beginning Stocks	84,694	84,694	75,985	54,213		57,479	
Production	6,532	6,532	6,532	6,532		6,532	
Imports	435,445	435,445	451,774	457,218		478,990	
MY Imports from U.S.	0	232,963	0	226,432		239,495	
Total Supply	526,671	526,671	534,291	517,963		543,000	

Exports	4,354		4,354	4,354		3,266			4,354
Use	435,445		457,218	446,331		446,331			457,218
Loss	10,886		10,886	10,886		10,886			10,886
Total Dom. Cons.	446,331		468,104	460,483		457,217			468,104
Ending Stocks	75,985		54,213	57,479		57,479			70,542
Total Distribution	526,671		526,671	517,962		517,963			543,000
Stock to Use %	17		12	16		13			15
Yield	158,067		158,021	653.		158,021			158,021

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

Author Defined:

Trade Matrices

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2008 - 2009)

Import Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Aug-Jul	Units:	1,000 MT
Imports for:	2008		2009
U.S.	248	U.S.	120
Others		Others	
Brazil	102	Brazil	71

Australia	57	Australia	55
India	27	India	26
Zimbabwe	16	Pakistan	13
South Africa	14	Greece	10
Tanzania	12	Zimbabwe	10
Singapore	11	Tanzania	10
Benin	8	Burkina Faso	7
Mozambique	8	Mozambique	6
Pakistan	8	Benin	5
Greece	7	Mali	4
Cote d'Ivoire	7	Cote d'Ivoire	4
Central African Rep.	7	South Africa	3
Total for Others	284		224
Others not Listed	59		34
Grand Total	591		378

Source: Global Trade Atlas.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2008 – 2009)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Jun-May	Units:	1000 MT
Exports for:	2008		2009
U.S.	1	U.S.	2
Others		Others	
Japan	6	Taiwan	3
Taiwan	4	Japan	2
Vietnam	3	Hong Kong	2
Germany	2	Germany	1
Hong Kong	2	China	1
Thailand	2	Belgium	1

Belgium	1	Russia	1
Malaysia	1	Philippines	1
Philippines	1		
China	1		
Total for Others	23		12
Others not Listed	4		0
Grand Total	28		14

Source: Global Trade Atlas.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2008 – 2009)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2008		2009
U.S.	0	U.S.	0
Others		Others	
China	9	China	5
Taiwan	7	Taiwan	4
Pakistan	3	Pakistan	4
Thailand	3	Malaysia	3
Hong Kong	2	Thailand	3
India	2	Hong Kong	1

Total for Others	26		20
Others not Listed	3		2
Grand Total	29		22

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2008 – 2009)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2008		2009
U.S.	2	U.S.	2
Others		Others	
Hong Kong	5	South Korea	17
Japan	12	China	14
Portugal	2	Japan	10
China	9	Sri Lanka	7
Malaysia	7	Malaysia	6
Sri Lanka	6	Hong Kong	4
Philippines	3	Philippines	2
South Korea	14	Bangladesh	2

Germany	2	Portugal	2
Egypt	2	Turkey	2
Bangladesh	2	Germany	1
Singapore	1	Taiwan	1
Total for Others	65		68
Others not Listed	12		14
Grand Total	79		84

Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2008 – 2009)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2008		2009
U.S.	2	U.S.	0
Others		Others	
China	224	China	36
Rep. of Korea	66	Malaysia	5
Taiwan	27	Hong Kong	8
Malaysia	17	Pakistan	5
Pakistan	4	Taiwan	7
Singapore	4	Rep. of Korea	12
Vietnam	4	Vietnam	1
Japan	3	Thailand	3

Thailand	3	India	2
Turkey	2		
India	2		
Total for Others	356		79
Others not Listed	125		6
Grand Total	483		85

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2008 – 2009)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2008		2009
U.S.	11	U.S.	5
Others		Others	2
Japan	40	Rep. of Korea	26
Turkey	28	Japan	17
Italy	22	China	15
Germany	15	Colombia	15
Bangladesh	14	Sri Lanka	9
Cambodia	12	Malaysia	7
Hong Kong	11	Hong Kong	6
Sri Lanka	11	Turkey	5
Netherlands	10	Bangladesh	4

Taiwan	10	Philippines	4
South Africa	10	Egypt	4
Lesotho	10	Italy	3
Vietnam	8	Spain	3
United Arab Emirates	8	Germany	2
China	7	Taiwan	2
Thailand	7	Belgium	2
Brazil	7	Vietnam	2
Belgium	6	Cambodia	1
Australia	6	Netherlands	1
United Kingdom	6	Australia	1
Nicaragua	5	United Arab Emirates	1
Malaysia	3	Canada	1
Philippines	3	Thailand	1
Panama	3		
Total for Others	262		132
Others not Listed	32		2
Grand Total	305		139

Source: Global Trade Atlas.

TABLE 9. TEXTILE PRODUCTION IN 2007 – 2008

Value of Textile Production in 2007 and 2008

(In USD million)

Products	2007	2008
Manmade Fibers	915	1,008
Yarns	3,709	4,086
Fabrics	4,181	4,605
Garments	6,022	6,532
Other textile products	499	509
Total	15,326	16,740

Source: Indonesian Investment Coordination Board (BKPM), Indonesian Statistics Agency (BPS), and Ministry of Industry (MOI).

TABLE 10. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2007 – 2008

Value of Textile and Textile Products Exports in 2007 – 2008
(In USD 1,000)

Products	2007	2008
Manmade Fibers	243,443	270,661
Yarns	1,902,831	1,719,792
Fabrics	1,578,514	1,610,633
Garments	5,630,451	6,015,932
Other textile products	354,164	352,972
Total	9,709,403	9,969,990

Source: Indonesian Investment Coordination Board (BKPM), Indonesian Statistics Agency (BPS), and Ministry of Industry (MOI).

Note: Exchange rate is Rp. 9138/USD 1, as of March 25, 2010.