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Global Agricultural Information Network

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## **Indonesia**

### **Sugar Annual**

#### **Indonesia Sugar Annual Report 2012**

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**Report Highlights:**

Indonesia is estimated to produce a total of 24 million metric tons (MMT) of sugarcane in marketing year (MY) 2011/12. Despite a decline in sugarcane production, Post estimates that Indonesia will produce 1.83 MMT of plantation white sugar in MY 2011/12, an increase of 3.4 percent over MY 2010/11. Raw sugar imports are estimated to increase slightly to 2.86 MMT over previous MY 2010/11 of 2.835 MMT.

**Executive Summary:**

The Government of Indonesia (GOI) strictly regulates sugar production and trade. In MY 2011/12, Post expects that Indonesia will produce 1.83 MMT of plantation white sugar, an increase of 3.4 percent over MY 2010/11. Indonesia imports of raw sugar are estimated to slightly increase to 2.86 MMT. Imports of refined sugar are estimated to decline to 115,000 MT of raw sugar equivalent. Higher international market prices of refined sugar have limited importers ability to import. Imports of refined sugar in MY 2012/13 are estimated to increase to 348,000 MT of raw sugar equivalent. This estimate is based on the assumption the GOI will import 250,000 MT of plantation white sugar sufficient to meet one month needs. Although GOI recommended total imports of 450,000 MT of plantation white sugar in MY 2010/11, as of December 2011 only a total of 118,129 MT have actually landed in the country.

In line with the increase in Indonesian production of plantation white sugar, since MY 2010/11, retail prices of plantation white sugar in domestic market have remained relatively stable. A slight increase of plantation white sugar prices in domestic market only occurred before and during Ramadan, the Muslim fasting month, as well as other significant Muslim holidays, such as Eid Il Fitr and Eid Il Adha. In 2011 these holidays which occurred from August through November. This price increase is considered normal due to higher demand for sweet foods and beverages prepared during these occasions. Retail prices of plantation white sugar ranged from the highest of Rp. 11,175/kg (\$1,220/MT) to the lowest of Rp. 10,625/kg (\$1,160/MT) in 2011.

**Commodities:**

Select

**Production:**

Indonesia produces plantation white sugar from sugarcane, primarily produced for direct human consumption. Indonesia also produces refined sugar from imported raw sugar, which is generally used for processing by the food and beverage industries.

A total of 370,000 hectares were planted with sugarcane in MY 2011/12, an increase of about 20,000 hectares from the previous year. The area expansion occurred on Central Java, Lampung, and South Sulawesi due to favorable weather in MY 2011/12 which is expected to continue to MY 2012/13. Although gained yield of sugarcane per hectare is lower than in MY 2010/11 the recovery rate is higher due to higher levels of sugar concentrates in the sugarcane. This increase in recovery rate has become an incentive for farmers to grow sugarcane as the recovery rate is used by sugar mills as the basis to calculate prices of sugar paid to the farmers. The Indonesian Ministry of Agriculture has announced plans to import sugarcane seed from Columbia and Australia, which they hope will further increase the yields and recovery rates.

The market conditions for the sugar sector in Indonesia have also motivated one prominent private company to open a new sugarcane plantation and sugarcane mill in Papua, the most eastern province of Indonesia. Construction for the new sugar mill, with a maximum installed capacity of 12,000 tons of

cane/day (TCD), is expected to begin next year. Other prominent agricultural companies also intend to open new sugarcane plantations in Papua, ranging from 20,000 to 60,000 hectares. However, to date, efforts to develop new sugarcane plantations outside of Java have been hindered by the lack of supporting infrastructure and land ownership problems. Indonesian sugar mills must also attempt to increase sugarcane their production capacity by adopting new planting patterns, using higher quality varieties, and by better timing of the harvest to increase the recovery rate.

The total area planted with sugarcane is forecasted to remain stable in MY 2012/13. The milling period of MY 2012/13 is expected to start on Java in May 2012. The Sumatran milling period began as early as mid February 2012. The milling period is expected to end in early November 2012. Both regions will experience longer than average milling periods compared to a more normal period of 150 days. Longer milling period will reduce the sugar content of the sugarcane. However, the milling period of MY 2012/13 is estimated to be shorter than the previous MY 2011/12. Shorter milling period will lead to a higher milling rate of 7.25 percent in MY 2012/13 compared to 7.1 percent reached in MY 2010/11.

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) predicts, based on a 30 year average the beginning of dry season will start at its normal time in 50.9 percent areas of Indonesia. The other 39.42 percent area of Indonesia will start its dry season later than normal, with the remaining areas starting the dry season earlier than what is generally considered normal. The intensity of rainfall during the dry season will be normal in 56.7 percent area of Indonesia, while 34.8 percent area will receive higher than normal rainfall. Unlike the MY2009/10 milling season which was marked by especially heavy rains, which led to flowering, long sugarcane stalks, and difficulties in loading harvested sugarcane, the anticipated, more favorable weather during MY 2011/12 and MY 2012/13 should provide higher sugar content. Subsequently, this will increase plantation white sugar production in MY 2012/13 to approximately 2.040 MMT – a 15.3 percent increase from MY 2011/12. However, this target may be hampered by poor recovery rate analysis, poor harvest management, sugarcane transportation problems, and capacity of old machines at sugar mills.

Currently, a total of 48 sugar mills are located in Java and account for 63 percent of Indonesian white sugar production in MY 2010/11. The balance is produced by 58 sugar mills outside of Java, primarily in Sumatra. According to the Indonesian Ministry of Agriculture's Directorate General of Estate Crops, the GOI has provided licences for opening new sugarcane plantations, totalling about 215,000 hectares, in Riau, Lampung, South Sulawesi, Central Java, East Java, South Sulawesi, West Kalimantan, and Papua.

Conversely, there are a total of eight sugar refineries producing refined sugar from imported raw sugar. The combined annual output of these facilities in 2010 was approximately 2.3 MMT and these facilities are currently operating at 70 to 75 percent of total operational capacity. Total operational capacity for all of the major Javanese refineries is around 3.2 MMT. In CY 2011 the eight sugar refineries produced a total of 2.2 MMT of refined sugar.

As part of its agricultural policy, Indonesia has a stated policy of achieving self-sufficiency in sugar by 2014. Outside observers largely consider this goal as unrealistic and would require significant advances in productivity.

**Consumption:**

Due to growing demand from the food and beverage industry, which currently consume a total of 2.2 to 2.3 MMT of refined sugar, and population growth, 1.4 percent annually, Indonesian sugar consumption is estimated to increase to 5.05 MMT in MY 2011/12. Post forecasts that consumption will continue to increase to 5.17 MMT in MY 2012/2013. Direct human consumption is estimated at 2.8 MMT, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption is 19 kg per year.

**Trade:**

Referring to the import realization data issued by the Indonesian Sugar Council (*Dewan Gula Indonesia*, DGI), Post revised the MY2010/11 Indonesian imports of refined sugar to 191,000 MT of raw sugar equivalent from initially 160,000 MT.

As a regulated commodity, white sugar can only be imported by the four registered importers, which are also sugar companies that purchase plantation sugarcane from farmers to produce white sugar. Raw sugar and refined sugar can only be imported by processors that will use the raw sugar as a raw material for their production. Also, whenever it deems necessary, the GOI can grant sugar processors permission to import raw sugar, provided that it is used to meet demand, due to domestic production shortfalls.

In September 2010, the Minister of Trade granted import licenses to PTPN IX, X, XI, PT. Rajawali Nusantara Indonesia, Perum Bulog and Perusahaan Perdagangan Indonesia to import a total of 450,000 MT of white sugar. These measures were taken in an effort to stabilize the soaring price of white sugar in the domestic market. The import licenses stipulate that the sugar must be imported before the beginning of the milling season in 2011 which is expected to start in May 2011. Due to skyrocketing prices of refined sugar in the international market, only 118,129 MT of the white sugar has landed in the country in MY2010/11. In an effort to support sugar imports and monitor prices during MY 2009/10, the Minister of Finance issued Regulation No. 239/PMK.011/2009 in December 2009. This was an amendment to Regulation No. 150/PMK.011/2009, issued the previous September 2009. The amended regulation stated that the effective period of reduced import duty for sugar that was initially valid until December 31, 2009 was extended to April 31, 2010. The reduced import duty for sugar is as follow:

**SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)  
(Based on Minister of Finance Regulation No. 150/PMK.011/2009)**

No.	Commodity	ID		VAT (%)	Restriction
		(Rp./Kg)	(US\$/ton)		
1.	Raw sugar from sugar cane	150	17.4	10	NPIK, IP, SNI

2.	White sugar	400	46.4	10	NPIK, IT
3.	Refined sugar	400	46.4	10	NPIK, IT

Note:

NPIK = *Nomor Pengenal Importer Khusus* (Specific Importer Identification Number)

IP = Importer Producer

IT = Registered Importer

Since the regulation expired at the end of April last year, the current sugar import duties resumed to normal levels:

No.	Commodity	ID		VAT (%)	Restriction
		(Rp./Kg)	(US\$/ton)		
1.	Raw sugar from sugar cane	550	63.7	10	NPIK, IP, SNI
2.	White sugar	790	91.6	10	NPIK, IT
3.	Refined sugar	790	91.6	10	NPIK, IT

Source: Indonesian Customs Tariff Book 2010.

According to the Global Trade Atlas, Indonesia imported approximately 114,000 MT of refined sugar and 1,766,000 MT of raw sugar in MY 2010/11. Thailand (35 percent), Malaysia (18 percent), Australia (17 percent), and South Korea (12 percent) were the main suppliers of refined sugar to Indonesia. For raw sugar, Brazil (42 percent), Thailand (38 percent), Australia (10 percent), and India (6 percent) were the main suppliers.

Indonesia imports most of its sugar from Thailand not only because of the freight advantage, but also because Thailand can meet specifications for color based on Indonesia's sugar requirements called "Indospec". The GOI normally determines the quality of sugar that the registered importers can import.

The GOI reduced the allocation of refined sugar imports for food and beverage industry to only 75,000 MT in CY 2011 as well as in CY 2012. This amount is lower than the refined sugar imports allocation in 2010 of 200,000 MT. The GOI expects that the food and beverage industry to consume more domestically produced refined sugar. However, this allocation is subject to change should any company require refined sugar with higher quality than what the domestic refineries can produce. The GOI limits the issuance of refined sugar import permit for the food and beverage industry to every six months.

A total of three sugar mills imported approximately 110,225 MT of raw sugar in CY2010 to fill mills idle in the wake of low Indonesian production. For CY2011, the Indonesian Ministry of Agriculture recently recommended the Indonesian Ministry of Trade to allow imports of approximately 224,000 MT of raw sugar to sugar mills to fill their idle capacity. However, as of December 2011, import realization only reached 127,842 MT.

In early March 2012, the Indonesian Ministry of Trade issued an import permit to import a total of 240,000 MT of raw sugar to PT. Perdagangan Indonesia. In line with GOI regulation prohibiting imports of sugar one month, during, and two months after the milling period, imports of this raw sugar must land in Indonesia on April 30, 2012 at the latest. Since PT. Perdagangan Indonesia is a trading company and does not own any sugar mill, GOI has order it to appoint certain sugar mills to process the raw sugar. The output will be distributed in May – June 2012.

An agribusiness company is investing in the establishment of a sugar refinery located in Lampung. The new refinery which plans to start operation in early 2012 will produce a total of 600 MT/day of refined sugar from imported raw sugar. With the increase of total installed capacity of sugar refineries, the Indonesian Sugar Refineries Association expects GOI to authorize raw sugar import allocation of 2.4 MMT for MY 2012/13. With an increasing refinery capacity, there will be an opportunity of a surplus of refined sugar production. According to the Indonesian Minister of Trade, any surplus can be exported and the sugar refineries can decide when and how much to export. However, the sugar refineries are currently focused on fulfilling domestic demand.

**Stocks:**

Due to the lower carry over stock from MY 2010/11, a slight increase of plantation white sugar production, a decline of refined sugar imports, and an increased sugar consumption, the ending stocks of MY 2011/12 are expected to sharply decline to 301,000 MT compared to 515,000 MT in previous MY 2010/11. Post estimates these levels will increase to 379,000 MT in MY 2012/13 due to an estimated increase of refined sugar imports and plantation white sugar production.

**Policy:**

The Minister of Trade issued a regulation stating that white sugar ranging from 70-200 International Units may be imported 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 support the sugar price should the price fall below Rp. 7,000/kg (\$764/MT) at the farmer level. The support is through purchase of farmers’ sugarcane production in cooperation with a third party that has secured a permit from the local Association of Sugarcane Farmers.

To achieve the target of sugar self sufficiency by 2014, the GOI launched the sugar machines revitalization program in 2008. This program gives reimbursement to any sugar factory who wishes to buy new machines. The new machines must be domestically produced and have high technology. A 10 percent discount will be given for any purchase of new machine with maximum price of Rp. 10 billion (\$1.1 million). The GOI provided a total of Rp. 2.6 trillion (\$288 million) to fund this program. The sugar factories have absorbed approximately 53.09 percent of the budget. The GOI will continue this program throughout 2012.

**Production, Supply and Demand Data Statistics:  
PSD: Sugarcane for Centrifugal**

Sugarcane for Centrifugal Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: May 2010		Market Year Begin: May 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	350	350	0	370		370
Area Harvested	340	340	0	360		360
Production	26,600	26,600	0	24,000		25,900

Total Supply	26,600	26,600	0	24,000		25,900
Utilization for Sugar	26,600	26,600	0	24,000		25,900
Utilization for Alcohol	0	0	0	0		0
Total Utilization	26,600	26,600	0	24,000		25,900
TS=TD		0		0		0

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

## PSD: Centrifugal Sugar

Sugar, Centrifugal Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: May 2010		Market Year Begin: May 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	750	750	515	546		301
Beet Sugar Production	0	0	0	0		0
Canesugar Production	1,770	1,770	2,088	1,830		2,040
Total Sugar Production	1,770	1,770	2,088	1,830		2,040
Raw Imports	2,835	2,835	2,850	2,860		2,860
Refined Imp.(Raw Val)	160	191	160	115		348
Total Imports	2,995	3,026	3,010	2,975		3,208
Total Supply	5,515	5,546	5,613	5,351		5,549
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	5,000	5,000	5,200	5,050		5,170
Other Disappearance	0	0	0	0		0
Total Use	5,000	5,000	5,200	5,050		5,170
Ending Stocks	515	546	413	301		379
Total Distribution	5,515	5,546	5,613	5,351		5,549
TS=TD		0		0		0

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

## Author Defined: Prices

In 2011 based on a recommendation from DGI, the Indonesian Minister of Trade set the price of plantation white sugar floor at Rp. 7,000/kg (\$764/MT). The GOI announced its intentions to change the plantation white sugar floor price during MY 2012/13 and is currently calculating the plantation white sugar production costs.

In line with stagnant production of plantation white sugar, the retail price of plantation white sugar in CY 2011 is relatively stable. It ranges from the highest of Rp. 11, 175/kg (\$1,220/MT) in February 2011 to Rp. 10,625/kg (\$1,160/MT) in December 2011. The retail price of plantation white sugar in domestic market started to decline in January 2012 to reach Rp. 10, 950/kg (\$1,195/MT) partially due to the lean season of plantation white sugar production and psychological impact of GOI plan to reduce gasoline subsidy. Although the initiative to increase gasoline retail price has been postpone the impact to staple food prices including sugar is already there. The retail price of plantation white sugar is expected to decline with the beginning of the milling period.

## **2009-2012 MONTHLY AVERAGE RETAIL WHITE SUGAR PRICES**

### **In JAKARTA MARKETS**

**(Rp./Kg)**

Month	2009		2010		2011		2012	
	Local	Imported	Local	Imported	Local	Imported	Local	Imported
January	6,594	6,768	11,200	11,000	11,150	11,050	10,650	10,500
February	7,406	7,177	11,350	11,000	11,175	10,813	10,700	10,500
March	7,713	7,404	11,050	11,000	11,050	10,500	10,925	10,875
April	7,715	7,688	11,000	11,000	10,950	10,500		
May	7,900	7,888	10,875	11,000	10,900	10,500		
June	8,140	8,000	10,600	10,875	10,950	10,500		
July	8,225	8,100	10,400	11,000	10,950	10,500		
August	8,775	8,425	10,500	10,250	11,000	10,500		
September	9,900	9,375	10,650	10,500	11,000	10,500		
October	9,850	10,375	10,800	11,000	11,050	10,500		
November	9,700	9,375	11,000	11,188	11,300	10,500		
December	9,875	9,813	11,125	11,250	10,625	10,500		

Source: Market Information Center (PIP), Ministry of Trade.