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# GAIN Report

Global Agricultural Information Network

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## **Indonesia**

### **Sugar Annual**

#### **Indonesia Sugar Annual Report 2014**

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**Report Highlights:**

Indonesia is expected to produce 33.7 million metric tons (MMT) of sugarcane in marketing year (MY) 2013/14, resulting in production of 2.3 MMT of plantation white sugar. Raw sugar imports are estimated to increase to 3.6 MMT in MY 2013/14 due to demand from a growing food and beverage industry.

## Commodities:

Select

Government of Indonesia (GOI) sugar policy divides the domestic sugar market into three categories: plantation white sugar for home consumption, raw sugar for domestic sugar refining, and refined sugar for the local food and beverage industry.

In MY 2013/14, Post expects Indonesia will produce 2.3 MMT of plantation white sugar, similar to MY 2012/13. Indonesian raw sugar imports are expected to increase to 3.6 MMT in MY 2013/14. Higher demand from the domestic food and beverage industry for specialty refined sugars increased refined sugar/plantation white sugar imports to 185,000 MT (raw sugar equivalent) in MY 2013/14.

Refined/plantation white sugar imports in MY 2014/15 are estimated to decline to 100,000 MT of raw sugar equivalent. This estimate is based on the assumption that the GOI will not import any plantation white sugar as domestically produced plantation white sugar will meet domestic demand. Refined sugar can only be imported by the food and beverage industry. In CY 2013, the GOI authorized imports for 98,578 MT of refined sugar. As of December 2013 a total of 89,400 MT of refined sugar has actually landed in the country.

Despite production growth in MY 2012/13, the May 2012 plantation white sugar floor price increase to Rp. 8,100/ kg (\$716/MT) pushed up retail prices of plantation white sugar. In CY 2013, retail prices of plantation white sugar ranged from Rp. 13,200/kg (\$1,167/MT) in January 2013 to Rp. 12,400/kg (\$1,096/MT) in October and December 2013.

**Table 1. PSD: Sugarcane for Centrifugal**

Sugar Cane for Centrifugal Indonesia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	375	420	375	460		460
Area Harvested	365	410	365	450		450
Production	25,600	28,700	26,700	33,700		33,700
Total Supply	25,600	28,700	26,700	33,700		33,700
Utilization for Sugar	25,600	28,700	26,700	33,700		33,700
Utilizatr for Alcohol	0		0			
Total Utilization	25,600	28,700	26,700	33,700		33,700

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

**Table 2. PSD: Centrifugal Sugar**

Sugar, Centrifugal Indonesia	2012/2013	2013/2014	2014/2015
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	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	409	409	814	879		1,264
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	1,970	2,300	2,080	2,300		2,500
Total Sugar Production	1,970	2,300	2,080	2,300		2,500
Raw Imports	3,400	3,400	3,600	3,600		3,650
Refined Imp.(Raw Val)	170	170	100	185		100
Total Imports	3,570	3,570	3,700	3,785		3,750
Total Supply	5,949	6,279	6,594	6,964		7,514
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	5,135	5,400	5,200	5,700		5,900
Other Disappearance	0	0	0	0		0
Total Use	5,135	5,400	5,200	5,700		5,900
Ending Stocks	814	879	1,394	1,264		1,614
Total Distribution	5,949	6,279	6,594	6,964		7,514

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

## 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.

Based on the latest data from the GOI and industry, Post revised MY 2012/13 Indonesian sugar cane production to 28.7 MMT. Favorable weather led to a high recovery rate of 8 percent, while high auction and retail prices for farmers' plantation white sugar provided incentives for farmers to grow sugar cane. A total of 420,000 hectares were planted with sugarcane in MY 2012/13, a 12 percent increase from the previous estimate of 375,000 hectares. The area expansion occurred in Central Java, Lampung, and South Sulawesi. Based on a higher planted area and recovery rate, Post revised MY 2012/13 Indonesian plantation white sugar production to 2.3 MMT compared to the previous estimate of 1.97 MMT.

**Table 3. Indonesia: Auction Prices of Farmers' Plantation White Sugar, Rp/Kg.**

Month	2010	2011	2012	2013
January	7,290	8,098	8,150	
February	7,740	8,010	8,625	
March	7,830	8,015	8,831	

April	7,900	8,132	9,803	
May	7,926	8,029	10,590	10,166
June	8,156	8,114	10,595	10,105
July	8,650	8,300	10,553	9,787
August	8,972	8,243	10,514	9,395
September	9,270	8,308	9,335	9,361
October	9,310	8,390	10,043	9,110
November	9,360	8,321	9,957	8,953
December	9,330	8,335	9,488	8,691
<b>Average</b>	<b>8,478</b>	<b>8,191</b>	<b>9,707</b>	<b>9,446</b>

Source: Indonesian Sugar Council (DGI)

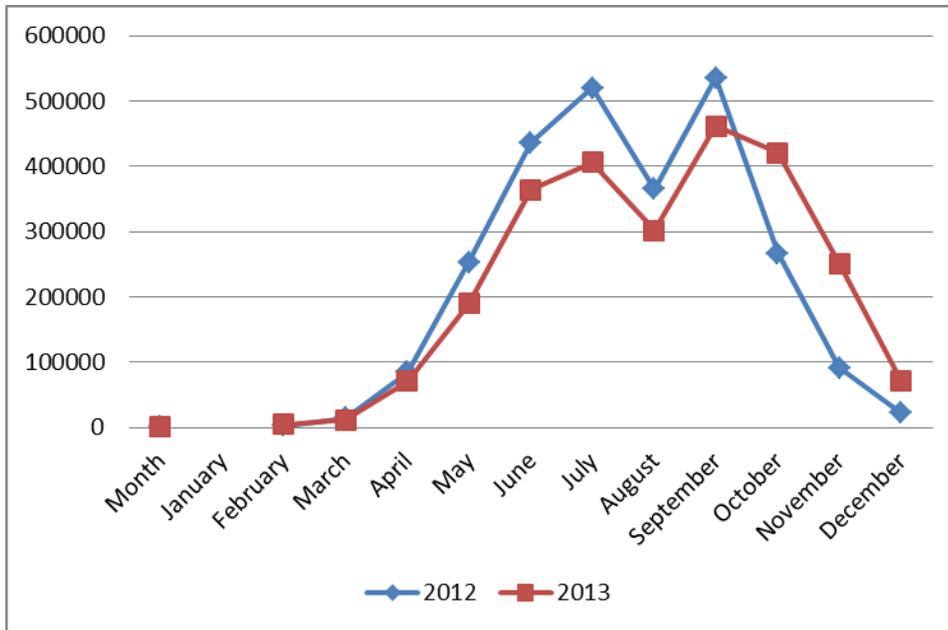
Prices remained high during CY 2013. However, Indonesia experienced a long rainy season that lasted through July 2013. Rains resulted in flowering, long sugarcane stalks, difficulties loading harvested sugarcane, and lower yields. Given these factors, Post estimates that MY 2013/14 sugar cane planted area will reach 460,000 hectares and produce approximately 33.7 MMT of sugar cane. MY 2013/14 Indonesian plantation white sugar production is estimated to remain at 2.3 MMT due to a lower recovery rate. The total area planted to sugarcane is forecasted to remain stable at 460,000 hectares in MY 2014/15 when factoring land conversion to non-agricultural uses on Java and new plantings on other islands. Sugar cane production is also expected to remain constant at 33.7 MMT in MY 2014/15.

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) reported in January 2014 that twin tropical storms were developing in the eastern part of the Philippines Sea and near Darwin, Australian. Although summer has started in the southern hemisphere, low pressure remains in the eastern Philippines. BMKG expressed concerns that if low pressure continues, it will reduce the prevailing wind pattern flowing from Asia across Indonesia to Australia, leading to another El Nino phenomenon during Indonesia's 2014 dry season. El Nino may reduce sugar cane production by prolonging the dry season and reducing rainfall. Indonesia's 2014 rainy season is still ongoing, with sufficient rainfall. Normally, the rainy season lasts from October to April, while the dry season takes up the remaining months.

Considering the possibility of an El Nino phenomenon by the middle of 2014, MY 2014/15 sugar concentrations are estimated above MY 2013/14 levels. Post expects MY 2014/15 Indonesian plantation white sugar production to reach 2.5 MMT. High prices for plantation white sugar and an increased recovery rate will incentivize farmers to grow sugarcane.

The MY 2013/14 milling period started in North Sumatera in February 2014, followed by sugar mills in Lampung and in Gorontalo in April. Sugar mills on Java are expected to start milling by May. The milling period is expected to last longer, possibly stretching into January 2015. The MY 2014/15 milling period is estimated to be shorter than MY 2013/14. A shorter milling period will lead to a higher recovery rate, (7.4 percent in MY 2014/15 compared to 6.8 percent in MY 2013/14). The target rate may be hampered by poor recovery rate analysis, poor harvest management, sugarcane transportation problems, and the limited capacity of older machines some mills.

#### **Chart 1. Indonesia: Monthly Plantation White Sugar Production (MT)**



Source: Indonesian Sugar Council (DGI)

There are 48 sugar mills located on Java, accounting for 63 percent of Indonesian white sugar production in MY 2012/13. The balance is produced by 14 sugar mills outside of Java, primarily in Sumatra. Indonesian sugar mills may increase sugarcane production capacity by adopting new planting patterns, using higher quality varieties, and by better timing harvests to increase recovery rates.

Indonesian sugar refineries are growing. Three new players have entered the market, bringing the total to eleven sugar refineries producing from imported raw sugar. The 2013 combined output of these facilities was approximately 5 MMT, while operating at 70 to 75 percent of total capacity. Robust growth of the Indonesian food and beverage industry will incentivize refineries to expand sugar production, although Presidential Regulation No. 36/2010 (Negative Investment List) requires new and expanding sugar refineries to create new sugarcane plantations in order to supply the new capacity. It also stated that any new sugar mill with an installed capacity of more than 8,000 MT of Cane per Day must also produce raw sugar. This regulation may curb the expansion of Indonesia's sugar industry.

## Consumption

MY 2013/14 sugar consumption is estimated to increase to 5.7 MMT based on 1.4 percent population growth and growing demand from the food and beverage industry, (the consumer of 3.036 MMT of refined sugar in CY 2013). Post expects consumption will continue increasing to 5.9 MMT in MY 2014/2015. Direct human consumption is estimated at 2.8 MMT, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption in CY 2013 is estimated at 22 kg. Post revised MY 2012/13 Indonesian sugar consumption up to 5.4 MMT based on GOI and Industry data.

## Prices

On June 14, 2013, the Indonesian Minister of Trade announced that the floor price for plantation white sugar would remain unchanged at Rp. 8,100/kg (\$716/MT), based on a recommendation from DGI. The GOI has expressed its intentions to change the plantation white sugar floor price for MY 2014/15 and is currently calculating plantation white sugar production costs. Despite production growth in MY 2012/13, the May 2012 plantation white sugar floor price increase from Rp. 7000/kg (\$619/MT) to Rp. 8,100/ kg (\$716/MT) pushed up retail prices of plantation white sugar.

**Table 4. Indonesia: Jakarta Monthly Average Retail White Sugar Prices (Rp./Kg)**

Month	2011		2012		2013		2014	
	Local	Imported	Local	Imported	Local	Imported	Local	Imported
January	11,150	11,050	10,650	10,500	13,200	13,000	12,600	13,000
February	11,175	10,813	10,700	10,500	12,733	13,000	12,350	13,000
March	11,050	10,500	10,925	10,875	12,975	13,000	12,400	13,000
April	10,950	10,500	11825	11313	12500	13,000		
May	10,900	10,500	12175	12625	12650	13,000		
June	10,950	10,500	12375	13000	12700	13,000		
July	10,950	10,500	13000	13125	12700	13,000		
August	11,000	10,500	13060	13500	12733	13,000		
September	11,000	10,500	13125	13375	12625	13,000		
October	11,050	10,500	12950	13000	12400	13,000		
November	11,300	10,500	13200	13000	12600	13,000		
December	10,625	10,500	13200	13000	12400	13,000		
Average	11,008	10,572	12,265	12,318	12,685	13,000	12,450	13,000

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

## Stocks

Due to the increase of plantation white sugar production, and an increase of both refined and raw sugar imports, MY 2013/14 ending stocks are expected to grow to 1.3 MMT compared to 879,000 MT in the previous MY 2012/13. Post estimates these levels will increase to 1.6 MMT in MY 2014/15 due to an estimated increase of raw sugar imports.

## Trade

As a regulated commodity, white sugar can only be imported by registered importers. Registered importers must also be sugar producers and are required to produce at least 75 percent of their white sugar from Indonesian-grown sugarcane. Raw sugar can only be imported by processors that will use it for their own refining, while refined sugar may be imported by food processors for their own production. Also, whenever it deems necessary, the GOI can grant sugar mills permission to import raw sugar for white sugar production, provided that it is used to meet any idle capacity due to domestic cane production shortfalls.

The GOI expects the food and beverage industry to consume domestically produced refined sugar, although it also permits some imports, normally issuing import allocations at the beginning of the year.

These allocations are subject to change when certain sugar products cannot be sourced domestically. The GOI limits the validity of refined sugar import permits to six months for the food and beverage industry.

In CY 2013, Indonesian sugar refineries imported a total of 2.882 MMT of raw sugar that must be refined and distributed to the domestic food and beverage industry. In CY 2014, the GOI authorized 1.8 MMT of raw sugar imports for sugar refineries, monosodium glutamate producers, and sugar mills to meet idle capacity. In addition, the GOI also authorized 19,000 MT of refined sugar imports for the food and beverage industry. Due to higher production of plantation white sugar, the GOI did not import any plantation white sugar in CY 2013. Imports of plantation white sugar are prohibited one month prior to, during, and two months after the milling period.

The GOI sets sugar import duties at the following level:

**Table 5. Indonesia: Sugar Import Duty (ID) and Value Added Tax (VAT), 2014**

No.	Commodity	ID		VAT (%)
		(Rp./Kg)	(US\$/ton)	
1.	Raw sugar from sugar cane	550		10
2.	White sugar	790		10
3.	Refined sugar	790		10

Source: Indonesian Customs Tariff Book 2012.

The GOI authorized the Indonesian National Logistics Agency (*Badan Urusan Logistik*, BULOG) to procure 350,000 MT of domestic or imported sugar in December 2013. This action was taken to maintain stable prices. The Chairman of BULOG has stated that the agency will prioritize domestic procurement.

Indonesia imported approximately 174,000 MT of refined sugar and 3,122,000 MT of raw sugar in MY 2012/13. The primary refined sugar suppliers were Thailand (40 percent), Malaysia (20 percent), and an additional 33 percent transshipped through Singapore. Raw sugar was supplied by Brazil (53 percent) and Thailand (45 percent). Indonesia imports most of its sugar from Thailand due to freight advantage, and because Thailand can meet Indonesia's unique specifications "Indospec."

## Policy

The Minister of Trade issued a regulation stating that white "Indospec" sugar may be imported if domestic white sugar production cannot 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 sugar prices should mill prices fall below Rp. 8,100/kg (\$841/MT). Importers support prices through sugarcane purchases in cooperation with a third party that has secured a permit from the local Association of Sugarcane Farmers.

Note: Exchange rate is Rp. 11,310/US\$ 1, as of April 8, 2014.